# Nato wavers over latest Bosnia peace initiative

Nato has not clearly endorsed the five-nation peace plan for Bosnia, although allies were said to be "pretty receptive" to the proposals. Les Aspin, US defence secretary, and Manfred Wörner, Nato secretary-general, said there were many "unanswered questions", including doubts over the definition of "safe areas", the type of forces required and the rules of engagement. Page 3

GM loses round one to Volkswagen: General Motors, US carmaker, lost a legal battle against Germany's Volkswagen after a Frankfurt court threw out its attempt to prevent former employees from working for Volkswagen. Page 23

Lamont fights his corner: The British government was threatened with a serious rift because of a behind-the-scenes battle over Norman Lamont's position as chancellor of the exchequer. Mr Lamont was said to be fighting hard to keep his job. Page 22

Peseta drops on rate cut rumours: The peseta finished sharply lower against the D-Mark amid speculation of further cuts in interest rates before the June 6 general election. The Spanish currency ended at DM77.85 from DM76.335 the previous day. Currencies, Page 40

Mandela struggles to keep talks on track:
Nelson Mandela, president of the African



Nelson Mandela, president of the African
National Congress,
urged South Africans
not to panic after the
ultra-radical Pan Africanist Congress suspended
participation in constitutional talks. "I'm sure
that the democratic
forces are strong enough
to overcome this crisis,"
he said. Page 7

Delors makes plea for Europe: Jacques Delors, European Commission president, moved to relaunch the EC's drive towards deeper political and economic union. "We must try to recover the euphoria which was evident at the birth of the Community," he said. Page 22

US durable goods orders flat: US durable goods orders were flat in April and order backlogs shrank to the lowest level in 4½ years as manufacturing business contracted. Page 4

Swiss uneasy over airline link-up: The Swiss government has indicated unease about Swissair joining an alliance with three European airlines and has ordered the company to put forward alternative plans. Page 23

Republics haggle with Yeltsin: Leaders of Russia's republics will use their support for President Boris Yeltsin's proposed constitution to bargain for greater access to tax revenues and export earnings. Page 3

Hoechst in viscose merger: German chemicals giant Hoechst and Courtaulds, the UK group, have reached an agreement to merge their European viscose and acrylic fibres operations. Page 23; Lex, Page 22

Yen hits high against dollar: Japanese officials sought to quell speculation on foreign exchange markets about US support for a higher yen as the Japanese currency surged to a record Y108.65 to the US dollar. Page 6; Currencies, Page 40

Sharp, Japanese electronics and office equipment manufacturer, blamed a 37 per cent drop in parent pre-tax profits on the downturn in the Japanese economy and the appreciation of the yen. Page 25

EC banana quotas censured: A Gatt disputes panel has ruled that the EC's banana import regime unfairly limits Latin American exports.

Chinese dissident freed: Xu Wenli, one of China's longest-serving dissidents, was freed from jail after serving 12 years of a 15-year sentence. Page 6

Eros returns: London's landmark statue Eros, 100 years old next month, was returned to Piccadilly Circus after repairs costing £110,000 (\$170,000). The statue was damaged two years ago by vandals.

Pier Giorgio Romiti: A photograph of Mr Pier Giorgio Romiti, managing director of Gilardini, Fiat's space division, was incorrectly used in some editions of yesterday's Financial Times in conjunction with a report of investigations by Milan magistrates into alleged corruption involving Flat. We offer him our sincere apologies for any embarrassment caused by the error.

STOCK MARKET INDICES	# STERLING
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# France sets out plans for sale of state assets

By Alice Rawsthorn in Paris

FRANCE's new centre-right government announced wide-ranging plans yesterday for an ambitious privatisation programme involving the sale of 21 public sector companies including the Renault motor group, Air France and the banks Crédit Lyonnais and Banque Nationale de Paris.

The proposals, intended to complete and extend the sale of state assets begun by the last conservative administration from 1986 to 1988, immediately ran into controversy when Mr François Mitterrand, the Socialist president, warned the weekly cabinet meeting that some companies should remain under state ownership to "protect the national interest".

Mr Edmond Alphandery, economy minister and architect of the privatisation plan, described the proposed share sales as an "ambitious programme" that was central to the new government's efforts to create a "modern and sound economy".

The next proposals abandon the

The new proposals abandon the 20 per cent ceiling on foreign investment in privatised companies. Mr Alphandery has also introduced initiatives to encourage individual share ownership and to persuade employees to invest in their own companies.

Mr Alphandery did not specify how much he claimed to raise from the sales, icheduled to start from September. The last centre-right government's privatisation drive involves selling 29 companies worth F. P. 250 (\$21.8bn).

Mr Edouard Balladur, prime minister, has already announced that the state hopes to generate at least FFr40bn by the end of this year to cover the new bond due to be launched next month to raise money to finance its job-creation scheme.

The names of those companies to be privatised first will be announced immediately after the privatisation legislation has been

PAGE 21
M France ties up the loose end
Lex Page:

passed through parliament. Mr Alphandéry emphasised that the timing of individual sales would be determined by market conditions. There is no time limit for the new programme.

Analysts have voiced concern that the French government may find it more difficult to sel off its assets in the present recessionary climate compared with the buoyant economic environment of the mid 1980s.

One snag is the strength of the franc, which might deter international investors. Another is the sluggish state of the Paris stock market, which has been virtually static since the start of this year and yesterday was stable at 1,890.

The new privatisation candidates include 13 companies scheduled for sale by the last centre-right government. Among those are the two banks and three insurers - Union des Assurances de Paris, Assurances Générales de France and Groupe GAN - together with the Thomson electronics group, Bull computer company, Elf-Aquitaine oil group and Rhône-Poulenc chemicals concern.

Among others are Air France, Renault, the Usinor-Sacilor steel group and Aérospatiale, the aerospace concern, all previously considered too "sensitive" to be in the private sector.

However, stakes of more than 5 per cent in health, defence or security stocks will be subject to government approval.

Mr Alphandéry has also

revived the concept of the "golden share", whereby the state can vet shareholders and block takeover bids in certain privatised companies. The "golden share" has now been extended from five years to an indefinite lifespan.



Members of the German parliament walk to the Bundestag building after being flown in by helicopter to avoid demonstrators.

# Germany ponders welfare in search for budget cuts

By Quentin Peel in Bonn

THE GERMAN government is considering politically explosive cuts in welfare payments such as unemployment benefit, and a new delay in the move of the German government to Berlin, because of the need to make drastic savings in its budget.

Mr Theo Waigel, the finance

minister, has confirmed that the stormy issue of when and how the government moves to Berlin is under question once again as he seeks to cut DM20hm (\$12.2bm) a year out of his spending plans for the next three years.

The government is considering

The government is considering delaying the start of any new government buildings in Berlin to 2000, instead of 1994 as planned. That would delay any serious move of the main government departments until well into the next century.

Mr Waigel is also putting back

Mr Waigel is also putting back on the agenda a series of social spending cuts furiously opposed by the opposition Social Democrats and the trade unions. The plan is to freeze most spending next year. That might mean no pay rises for civil ser-

other targets on the hit list – needed just to keep the central government budget deficit down to DM70bn a year – include further cuts in defence spending, transport (including rail reform plans), and subsidies for returning German emigrants from Russia and eastern Europe.

The proposals have been put forward in internal working papers prepared by the Bonn finance ministry, and leaked yesterday in the German press.

Ton of the cuts is unemployed.

Top of the cuts is unemployment benefit, with a reduction of 3 per cent proposed. That would save DM3bn a year. A similar cut in support for workers undergoing retraining – many of them in the former East Germany – would save another DM2bn.

An increase in unemployment insurance contributions by 0.5 per cent, instead of a planned decrease, could bring in an extra DM8.4bn a year.

The threatened delay in the move to Berlin has already provoked a predictable reaction from the pro-Berlin lobby, fearful that the delay might become indefinite. Yet, given the narrow paritamentary majority for the move in the first place, it might prove a popular communitie.

Cuts in social spending are acutely sensitive, and may founder on the Social Democrats' majority in the Bundesrat, the upper house. Yet few doubt that welfare spending will have to bear much of the burden of acute budget stringency over the next few years.

Other possible savings include postponing increases in student grants and cutting the allowance for second children.

Chancellor Helmut Kohl has promised that pensions benefits will not be affected. But there is an expectation that pensions contributions will have to go up next year by as much as 2 percentage points to more than 19 per cent of salaries.

## Pakistan's dissolved parliament is restored

By Farhan Bokhari in Islamabad

PAKISTAN'S Supreme Court yesterday restored Mr Nawaz Shartf to office as prime minister, apparently delivering a severe setback to President Ghulam Ishaq Khan, who dismissed him five weeks ago.

The National Assembly, the

The National Assembly, the lower house of parliament, was also reinstated after being dissolved by the president. A presidential spokesman said that Mr Khan would honour the court's decision.

The judgment, supported by 10

out of 11 judges, came after a three-week hearing on a petition filed by Mr Sharif which challenged the presidential order. "We hold that the order of 18th April 1993, passed by the presi-

Continued on Page 22 Democracy back on track, Page 6

# Trade feud an unfinished symphony of sour notes



By Liea Bransten in Washington

THE Italian feud between the Prestinis and the Pisonis, being waged on US shores, is not about love or revenge.

It is instead a protracted trade dispute over access to the US market for the tiny leather or synthetic pads that cushion the movement of keys on woodwind and brass instruments.

This "dumping" case is small in every way. It involves unit price differences of less than one cant, and the \$200,000 market for keypads is the smallest ever to be disputed before a US trade body, according to one lawyer.

Mr Giusenne Prestini, who

Mr Giuseppe Prestini, who makes keypads in Nogales, Arizona, has claimed for the last decade that Mr Luciano Pisoni exported keypads from his factory in Trento, Italy, for less than fair market value. Mr Prestini says his rival is trying to drive him out of business by claiming the one small portion of the US market that he still supplies.

In 1976, Mr Prestini's family

closed its factory in Trento and opened one in Arizona. Several years later Mr Pisoni, who was the tool and die maker in Mr Prestini's old plant, set up his own shop, exporting keypads from Italy.

By 1983, exports were booming for Mr Pisoni, while sales dropped for his former boss in

CONTENTS

the US. So Mr Prestini took his iroubles to the US government, asking it to find Mr Pisoni in violation of anti-dumping regulations.

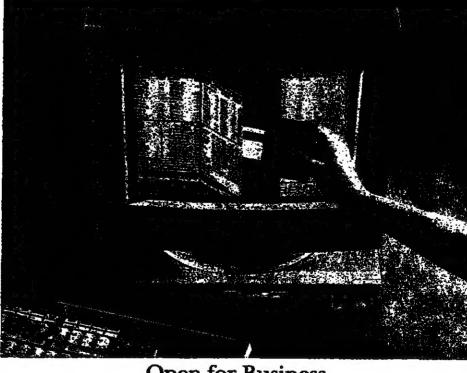
The US Commerce Department ruled in 1984 that Mr Pisoni had sold keypads in the US for 1.16 per cent below fair market value. Ultimately, however, the finding was overturned after Mr Pisoni's lawyer. Mr Larry Klayman, argued that the discrepancy reflected exchange rate fluctuations.

Now for the second time in a decade Mr Prestini is charging Mr Pisoni with dumping in the US market.

The Commerce Department last week issued a preliminary finding that Mr Pisoni has sold keypads in the US for 1.26 per cent below fair market value, a margin of less than a cent, since the price of keypads ranges from 12 cents each for clarinets to 78 cents for saxophones.

The department must make a final determination by August 2, and the International Trade Commission must then find that the dumping injured the US maker for duties to be imposed.

Mr Klayman says the new case brought by Mr Prestoni is barassment. "The US government is being used again as a stooge to accomplish what Mr Prestini cannot do in the marketplace," Mr Klayman said.



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## Balladur's jobs package averts rift

By David Buchan in Paris

FRENCH Prime Minister Edouard Balladur appeared yesterday to have forestalled, with his latest job-boosting plan, the first serious rift in his ruling coalition.

The prime minister, a RPR Gaullist, had come under criticism from Mr Valéry Giscard d'Estaing, president of the UDF centre-right party, for introducing too much austerity in his

In particular, the former French president, who is not in the RPR-UDF coalition government but who is a contender for the presidency in 1995, tried to swing the UDF against Mr Balladur's proposal to increase the controversial CSG tax, a supplementary income tax hitting unearned as well as earned income, on July 1. Mr Giscard d'Estaing said the tax increase should be delayed until next year. But Mr Balladur's announce-

ment on Tuesday of a FFr40bn (\$7.31bn) state loan, most of which will be spent on preserv-ing jobs and accelerating housing and infrastructure, appeared yesterday to have ilenced Mr Giscard d'Estaing. Mr Bernard Bosson, the UDF transport minister, disowned his party leader's criticism, expressing regret that most of the blows against the government should have come from

Yet, with presidential elections less than two years away, the prime minister runs a growing risk of being sniped at by the two most likely presidential contenders - Mr Giscard d'Estaing and Mr Jacques Chi-

Both candidates for the Elysée will want to distantce themselves from Mr Balladur's record if the latter fails to turn the economy around and push unemployment downwards.

Criticism from the Socialists of Mr Balladur's change of emphasis towards measures to create jobs has been muted by the fact that the prime minister is now vigorously pursuing some of their policies. Not only is he providing funding for 200,000 more places in Socialist-created work schemes, but his labour minister, Mr Michel Giraud, said yesterday that he would implement a law on redundancy procedures, passed by the Socialist government last December and criticised then by conservatives.

Commenting on Mr Balla-

dur's proposal for a wage sub-sidy, Les Echos newspaper yes-terday said that the government would have been critical if it had been applied by its producessor. In cases by its predecessor. In cases where employees have agreed to take a wage cut in order to ward off the threat of layoffs, Mr Balladur has said the state will step in "temporarily" to make up the shortfall in wages.



A politician is kicked during a protest in Bonn over the parliamentary vote on tightening the law on asylum

## Shareholders condemn Steinkühler

THE FULL might of the German financial establish-ment yesterday united to condemn Mr Franz Steinkühler for the share dealing that led him to resign as leader of Germany's most powerful union, iG Metali.

At the annual meeting of Daimler-Benz, where Mr Steinkühler is a supervisory board member, Germany's biggest bank described his share trading as "totally unacceptable" and "massively lacking in sensitivity with regard to the problems of insider trading. Mr Wolfram Freudenberg of

Deutsche Bank, the biggest shareholder in Daimler-Benz, said the union leader did not have inside information when he bought nearly DMIm (\$600,000) of shares in Mercedes Holding (MAH), a Daimler holding company, in the weeks leading up to Daimler's supervisory board meeting on April 2. The information about the proposed dissolution of MAH which led to a sharp rise in the share price from which Mr Steinkühler benefited - was only known by a few, and not

by the union leader However, Mr Freudenberg said that Mr Steinkühler had received confidential information about Daimler on March 25. "It is totally unacceptable that a member of the supervisory board should have dealt in MAH shares under such circumstances," he said. "In the interest of both the company and Germany as a financial centre, we simply cannot put up with this sort of thing.

The criticism was echoed by Mr Hans Joachim Fonk, one of the two directors of MAH. which owns a 25 per cent stake in Daimler. MAH and Deutsche Bank said they would not vote to approve the reappointment of Mr Steinkübler to the Daimler supervisory board. Although he was a trade union

tion on the board was held in a personal capacity. He has not yet offered to resign, but is unlikely to stay.

The circumstances surround ing the MAH announcement are being investigated by the Insider Commission of the

Frankfurt Stock Exchange. IG Metall yesterday con-firmed that Mr Steinkühler had owned shares in AEG, the electrical group now owned by Daimler, in 1985. The union leader had denied any such ownership when he was accused last week of having bought them just before Daim-

## Peseta in sharp fall against **D-Mark**

By Peter Bruce in Madrid

THE SPANISH pesets, devalued by 8 per cent in the exchange rate mechanism of the European monetary system earlier this month, feil sharply against the D-Mark yesterday as nervousness about the outcome of the June 6 election returned to the markets.

The currency fell 155 basis unts during the day to clos at Pta77.85 to the D-Mark, the lowest it has traded since the devaluation - the third in nine months - on May 13.

Dealers said a forecast of further interest rate falls, following Tuesday's small benchmark cut, by Mr Carlos Solchaga, the finance minister, had helped weaken the peseta, along with market suspicions that the Bank of Spain had been buying D-Marks in order

to replenish its reserves.

But the movement yesterday raised the spectre of one further attack on the currency before the election, especially as the opposition Partido Popular, which may now be opening up a clear lead in opinion polls over the governing Socialists, has consistently refused to make any clear statement on

its economic policy plans.

That has left markets worry. ing about remarks by PP lead-ers calling for quick interest rate cuts of up to four points while at the same time displaying a less than convincing commitment to holding the

peseta inside the EMS.

Polls taken after a televised debate between its leader, Mr José María Aznar, and Prime Minister Felipe González show that more than 50 per estate. that more than 50 per cent of the country gave the debate to Mr Aznar and that the debate swayed a large number of undecided voters to the conservatives.

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## It is lonely at the top for Fiat's Agnelli

N HIS pedestal as chairman of the Fiat group, Mr Giovanni Agnelli has become a lonely

In recent months, 12 Fiat group executives have been implicated in allegations concerning illicit payments to Italy's political parties to obtain contracts and favourable treatment.

Now the investigations have reached just one notch below him - Mr Cesare Romiti, his faithful long-standing chief executive. Milan magistrates have placed Mr Romiti on the list of persons officially under investigation.
The Milan magistrates want

to cross-check evidence voluntarily provided by Mr Romiti against testimony of Fiat executives already arrested. The magistrates are understood to be anxious to check whether Mr Romiti himself was directly involved in contacts with poli-ticians and to clarify details about the use by Fiat of overseas funds paid illicitly through a Swiss bank.

The involvement of Mr Romiti-and more directly that of Mr Giorgio Garuzzo and Mr Francesco Paolo Mattioli, respectively the group's chief operating officer and chief financial officer - raises the awkward question of how much the chairman himself knew of these illegal transac-

Within the group, executives say Mr Agnelli was not con-cerned with the daily running of the group and its 1,300 companies. As such he was unaware of the extent of Fiat being a party to the system of bribes until around April this year. When he did, they say, he immediately went public on April 17 with a speech at Venice admitting Fiat had

This then led to Mr Romiti's appearence before the Milan nagistrates and a complete volte face in the group's previous stance of non-cooperation with the judiciary. Fiat also hastily approved a new code of business ethics for the group. One of the team of Milan magistrates admitted this week

that Fiat's evidence, combined with that provided by Mr Carlo De Benedetti, the Olivetti chairman 10 days ago, has unlocked the main keys to th illicit system of financing the political parties. This appeared to go some way towards exonerating Mr Agnelli.

The 72 year-old Fiat chairman is on record as saying that when the first group executive was arrested in May 1992,

director of the construction arm Cogefar-Impresit, he understood this was an isolated instance with at best one

or two other cases. However, this suggests that there was no attempt to conduct an inquiry at a senior level until nearly a year later. During this time a number of Fiat executives had already spent considerable time in jai before agreeing to talk to the

It also suggests that Flat's top management either preferred to ignore the growing wave of evidence of widespread corruption coming to light from last autumn onwards, or adopted a policy of sitting

In either case the image of the group has suffered, as has that of both Mr Romiti and Mr Agnelli. As commentator Massimo Riva wrote yesterday in the newspaper La Repubblica: "Dealing with Fiat one writes Cesare Romiti but one must read in for this Giovanni Agnelli, the man who is the real symbol and incarnation of economic power, the standard bearer of the Italian industrial system, the oracle to whom a good part of the country turns to decide the course of their investments and consumer

There is indeed the question of why Fiat - through its enormous influence in Confindustria, the industrialists' confederation, and through Mr Agnelli's unparalleled prestige and personal contacts as well as ownership of one national newspaper, La Stampa, and shares in another, Corriere della Serra - did not denounce earlier a system of bribery which had got out of hand.

The uncomfortable answer would appear to be that Fiat grossly underestimated the cancer of corruption in the system and at the same time found it convenient to play along with the extortionate game of the politicians.



Giovanni Agnelli: 'oracle'

#### **NEWS IN BRIEF**

## EC jobs plan aims to halve unemployment

THE European Commission yesterday unveiled a job-creation strategy which it hopes will help halve unemployment in the EC by the end of the century, writes Andrew Hill. At the same time, Mr Padraig Flynn, EC social affairs commissioner, reaffirmed Mr Padraig Flynn, EC social affairs commissioner, reaffirmed that the Commission was fully committed to the setting of minimum social standards across the EC. "The social dimension [of EC policy] is up and running," said Mr Flynn, who denied that Britain was gaining any economic advantage by opting out of the social protocol of the Maastricht treaty.

The EC-wide "framework for employment", agreed by the Commission at its meeting in Strasbours, aims to improve the Commission at the commission

The EC-wide "framework for employment", agreed by the Commission at its meeting in Strasbourg, aims to improve the Community's comparatively poor record on employment. Mr Flynn pointed out that only 60 per cent of the EC workforce was employed, against 70-75 per cent in Japanese, US or Scandinavian economies. He said economic growth alone would not be enough to reduce the 17.4m EC jobless total. He said 9m jobs were created in the EC by the booming economy of the mid-1980s, but unemployment fell only 3m. ployment fell only 3m.

The Commission proposes that member states should co-ordinate action, for example by encouraging employees to adapt to different types of job and practices – such as job-sharing – and "investigating the scope for reducing labour costs".

## New premier for Bavaria

Edmund Stoiber, the Bavarian interior minister, was yesterday nominated by the ruling Christian Social Union group to take over as state premier, after Mr Max Streibl announced his long-awaited resignation, writes Quentin Peel from Bonn. Mr Streibl had admitted accepting free holidays from a business friend.

## Norway faces confidence vote

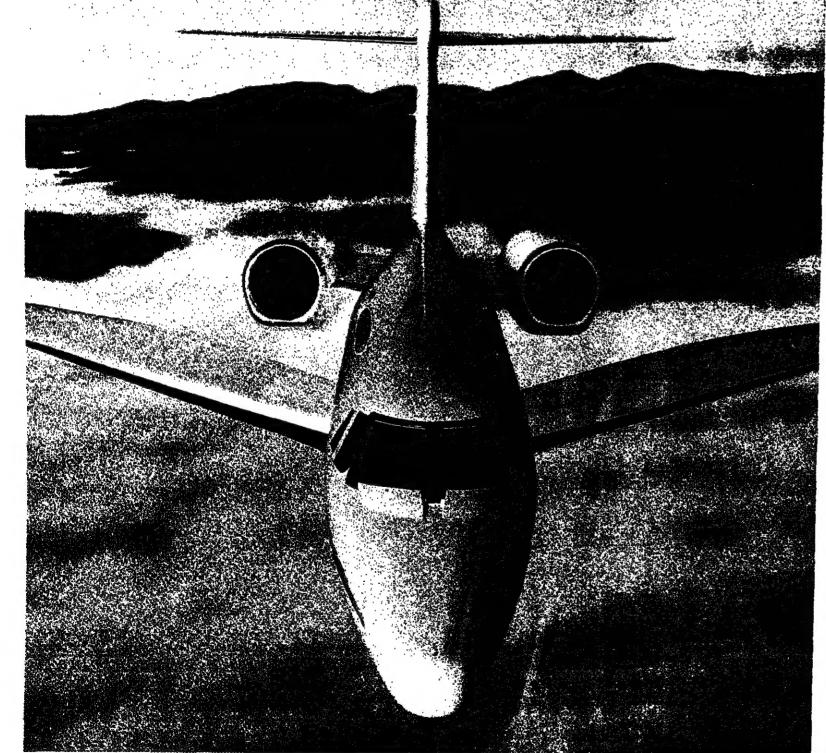
Norway's minority Labour government may face a vote of confidence on June 8 over its handling of the collapse last autumn of Uni Storebrand, the country's biggest insurance group, writes

The Conservative and right-wing Progress parties yesterday agreed to table a proposal in parliament in which they will seek to unseat Mr Sigbjoern Johnsen, the finance minister. They say if they succeed in winning majority support for the proposal it could force the resignation of the government.

## Backing for Swedish budget

Sweden's centre-right minority government yesterday finalised a deal with the opposition New Democracy party which ensures broad parliamentary support for the supplementary budget proposals which it announced last month, writes Christopher Brown-Humes in Stockholm. The government has agreed to scrap personal allowances for higher rate taxpayers and to reduce VAT in return New Democracy has said it will vote for a plan to cut.

In return New Democracy has said it will vote for a plan to cut housing benefits by SKrabn over three years. The reduction is SKr200bn budget deficit.



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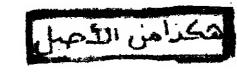
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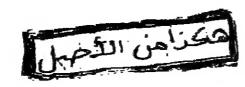
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## Republics in Nato wavers bid for more over Bosnia tax revenues

By Leyla Boulton in Moscow

THE LEADERS of the Russian Federation's constituent republics will use their support for President Boris Yeltsin's proposed new constitution as a bargaining chip to secure greater access to tax revenues and export earnings, it

Mr Yeltsin told a meeting of republican chiefs yesterday that the new constitution would limit the powers of the centre, giving republics more rights but also more responsibilities. His spokesman said up to a gentleman's agreement not to alter significantly the president's constitutional

in a related move the 21 republics - Chechnya was the only one to stay away - plan to meet next month to agree measures to implement a new federation treaty in parallel to a constitutional convention, which opens on June 5 to

adopt the new constitution. Mr Vladimir Shumeiko, first deputy prime minister, said the president would soon publish a decree on ways of implementing the federal treaty, including details of revenue sharing responsibilities between the regions and the centre. The treaty was signed last year but Russia's 89 republics and through reforms.



limit powers of the centre'

regions have complained that it has not been implemented. A federation treaty is badly needed to give the state a more orderly structure, but part of the problem in implementing it has been very different cona fair division of power and wealth with Moscow

Mr Yeltsin will have to balance the interests of poorer government subsidies, while retaining enough control over economic policy to push

## Fyodorov bares all on Russia's economic woes

THRSE are the days of living dangerously in the Russian economy, but they are also the days of unusual candoor, at least as far as Mr Boris Fyodorov, Russia's deputy prime minister in charge of the econ-

On Tuesday night he and foreign economists with a candid snapshot of life in the upper echelons of the Russian

He admitted, for example, that everyone "apart from poor people on the street" was shifting out of roubles into dollars, legally and illegally, and acknowledged that "I

would do the same". The government was "failing in its public duty" to protect people and their currency, and when it took two months to effect a money transfer in roubles and a day or two in dollars, lawlessness was per-fectly understandable. "We have a very small stick, and

no carrots," he added. Mr Fyodorov was breathtakingly self-confident. He dis-closed that today he will propose to the cabinet that no promises for extra expenditure be honoured by the govern-ment. That would stop politicians, including President Yeltsin, from making populist gestures in an election cam-paign sure to be forthcoming. Mr Fyodorov clearly identi-

fied the government's lax populism as being more dangerous than the parliament.
"It's not so bad," he said of the parliament, which is public enemy number one as far

as Mr Yeltsin is concerned. The government is, according to Mr Fyodorov, riven with dissension. Even within his

pieces of advice he had received, he said, was from Professor Jeffrey Sachs, the government adviser from Harvard University, to the effect that any agreement reached had to be signed on the spot. Mr Fyodorov says he now gets central bank officials to sign

We have a very small stick, and no carrots

any deal as soon as it is

Though he hailed the recent agreement between the gov-erument and the central bank which will allow the government access to the first \$1.5bu (£972m) tranche of the \$3bn "systemic transformation facility" put up by the IMF, be clearly does not trust Mr Victor Gerashchenko, central bank chairman, to fulfil it. "It is a gentleman's agreement," he said. "Let's see how many

gentlemen there will be in the central bank" - recalling that Mr Gerashchenko had recently said that he [Mr Fyodorov] would soon "crawl to him" for more credits.

Mr Fyodorov does not believe in greater economic integration in the Common-wealth of Independent States.

"You cannot believe in a union like this. So far I have not seen any documents which say that there is any economic integration... I welcome with pleasure the introduction of new currencies. We are pre-tending there is a rouble zone

## State sell-off 'disappointing'

By James Blitz, Economics Staff

PRIVATISATION of Russia's small and medium-sized enterprises has been disappointing in terms of its effects on companies' management structures and business operations, according to a report issued yesterday under the auspices of the UK Treasury.

The report, compiled by KPMG Management Consultancy and Heriot-Watt University, says 46,000 medium-sized enterprises had been officially privatised by January of this year, including 6 per

cent of Russia's shops and 5 per cent of its restaurants. ent of Russia's shops and 5 per cent of its restaurants.

But the report's authors discovered that the act of privatising a company had, in most cases, amounted to little more than a technical liberation from state control. The report says privatised enterprises retained the same management structures and per-sonnel as had existed under the Soviet regime, and indulged in

little new investment or restructuring. Most work collectives opted for sale of shares in a joint-stock Most work confectives opted for safe of shares in a joint-stock company, with 51 per cent control going to management and employees. But surveying enterprises in Moscow, Volgograd and Nizhny Novgorod researchers discovered that workers and management did not use this as an opportunity for change

The prevailing attitude was one of defending the status quo, particularly employment and welfare provisions. A Study of the Russian Privatisation Process, available from HM Treasury, Whitehall, London SWI.

NATO yesterday failed to provide a clear endorsement of the latest five-nation peace plan for Bosnia, although Mr Les Aspin, US defence secre-tary, said most allies were

Mr Aspin and Mr Manfred Worner, Nato sec-retary-general, said there were many "unanswered questions" about the joint action programme agreed in Washington at the weekend, particularly about its proposals for safe areas. They said the UN Secu-rity Council had to make the

Questions raised by Mr Worner included the definition of safe areas, the kind of forces required and their rules of

Mr Aspin said the military option on which the US earlier failed to gain allied support - a lifting of the arms embargo to Moslem-led Bosnian government forces and air strikes was still available "In the end it may be that we

end up going back to that option," he said. After criticism of the new plan by Germany and particu-

ted that "not everybody was consulted equally". However, he said he believed the plan would be implemented. He strongly denied it implied abandoning the aim of a wider political settlement.

stopping the killing first," he

A com two-day defence ministers' meeting here conspicuously avoided giving explicit approval to the joint action programme, saying only that it had been discussed. The meeting underlined

Nato's concerns about the allies' ability to provide forces for new peacekeeping or peace enforcement missions amid continuing defence cuts. Mr Worner said countries needed to invest in properly-

prepared forces and it was "the

duty of the hour" for allies to stabilise their defence spend-However, Mr Worner angrily contested accusations that the alliance had proved ineffective

in responding to the Bosnian Nato should not be blamed for any lack of political will, he



British mercenary "Colonel" Philip Norris, fighting alongside Moslem forces in Mostar, runs for cover during an attack by

more but could not act unless it was mandated to do so by

"It makes no sense to accuse Nato because everybody knows it is the United Nations and crisis," Mr Worner said. But he warned that if the international community failed conflict it would damage all international organisations.

## Karadzic spurns UN plan for war crimes tribunal

By Karin Hope in Balgrade, Michael Littlejohns at the UN in New York and

MR Radovan Karadzic, the Bosnian Serb leader, yesterday said be would refuse to co-operate with an international tribunal being set up by the United Nations to investigate war crimes in the former

We would not deliver anyone accused of war crimes to this form of justice," he said. sides and to proclaim one side guilty."

Early vesterday the UN mously to establish an international tribunal to hear charges of war crimes, including ethnic cleansing, murder, rape and torture in former Yugoslavia. It will be the first such body

since the Nuremburg and Tokyo courts were set up at the end of the second world war. But unlike those tribunals, the 11-member UN court will not be empowered to tional court of justice, the tri-bunal is expected to hear cases in countries closer to former

Bringing the accused to justice may not be easy and it is likely to be some time before the first case is heard. A commission set up by the Security Council is collecting evidence of atrocities. Serbs, Bosnians and Croats have all been accused of violations of international humanitarian law.

Meanwhile, in Saraievo ves terday Mr Thorvald Stoltenberg, international mediator on Bosnia, held talks in an attempt to persuade the Mos-lem-led Bosnian government to accept the Washington accord to contain the fighting.

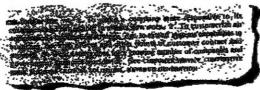
Mr Alija Izetbegovic, Moslem president of Bosnia, rejected the accord, saying it would allow Bosnian Serbs to

keep territory they seized. In London, Mr Douglas Hurd, UK foreign secretary, yesterday said the Vance-Owen plan for Bosnia was not "immutable" and that it could probably not be brought about

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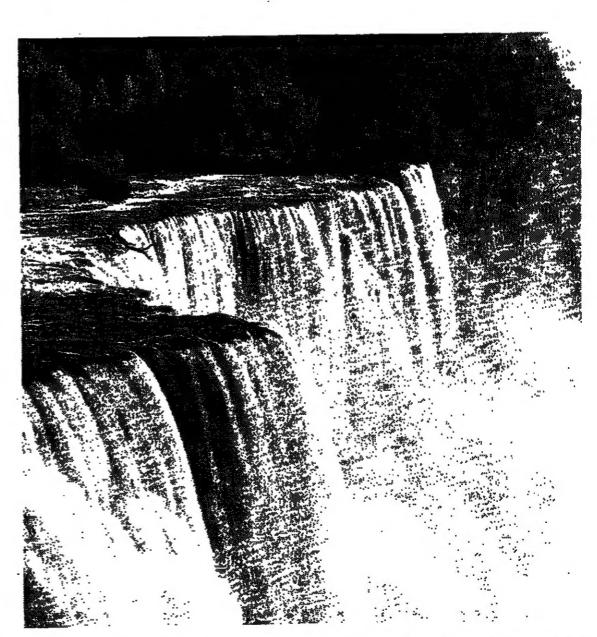
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By Jurek Martin, US Editor, in Washington

XPENSIVE presidential haircuts by Belgians called Christophe and cancelled \$15,000 (£9,740) breakfasts for lobbyists, even the shenanigans in the White House travel office could be dismissed as perfect "silly season" stories. Except for the fact, which is unfortunate for Bill Clinton, that a combination of the budget, on which the House votes today, and Bosnia make this far from a silly

Earlier this week, George Stephanopoulos, the communications director of the modish coif, ruefully admitted that "clearly last week did not go as planned". His boss blithely claimed the reverse was the case, because the Ways and Means Committee had agreed a budget bill to his liking, though it actually did so nearly two weeks ago. He did not adduce the latest Bosnian agree-

ment as evidence of "a good week". Of the three incidents, "Travelgate" threatens to have the longest shelf-life, but all three, in the opinion of the president's growing army of critics, demonstrate that something is seriously amiss with Mr Clinton's sense of what is right and the White House's perception of

The on-board haircut that kept Air Force One on the ground at Los Angeles airport for an hour is seen as a mistake because it showed the president had lost his common touch, not least with the airline commuters he may have inconvenienced. Worse, in the eves of Washington, it was further evidence that he had fallen under the sway of Hollywood, whose stars all have

sion fall short of what some Americans would like and oth-

ers would hope for," he said.

Mr Christopher, under fire as

the architect of the policy that

opposes a US military presence in Bosnia, insisted to the

Washington Post that "there is

no derogation of our powers

and our responsibility to lead".

But, he said in a clear refer-

ence to the Balkans, "in some

situations we will try to

involve other countries - we

would not remain a super-

power for long if we have to do

to humanitarian issues in Bos-

nia also runs counter to one of the administration's basic for-

eign policy principles. In

another indication of this

apparent ambivalence this

week the US made available an

additional \$30m (£19.4m) to the

UN High Commissioner for

Refugees, but Mrs Sadako

Ogata, the commissioner, had

been unable by midday yester-

day to secure a session with

Bill Clinton.

Christopher or President

Mrs Ogata is also understood

to be personally upset by a

deal struck between Mr Chris-

topher and Mr Boutros Boutros

Ghali. UN secretary-general,

under which she loses her cur-

rent American deputy.

But his dismissive reference

everything on our own".

"personal contracts" with hairdressers, face-lifters and individual trainers and frequently these days seem to be occupying the Lincoln bed-room in the White House.

The Democratic party fundralsing breakfast for lobbyists seemed similarly insensitive, since the president is supposed to be intent on curbing their influence and cutting down on their tax deductions

Travelgate is altogether messier because it involves, in no particular order of importance:

 The summary dismissal of career employees accused of mismanagement but denied the right of appeal: the humiliating volte face on Tuesday night, apparently rescinding the firing of five of the seven, but without restoring their jobs, merely compounds the confusion. • The misuse of the FBI, called into investigate without the prior

eral, who, being Janet Reno, has made her discontent about its politicisation public and extracted an apology from the White House.

 Nepotism, because a distant cousin of the president from Arkansas, who did a lot of travel work for his campaign, wrote a memo in February explaining how the travel office could be better run, and volunteered herself for the task.

added, because Harry Thomason, the Clinton friend and Los Angelesbased TV producer, has interests in the airline charter business which, in turn, complained about not being able to bid for White House press

Hollywood again, with cronyism

flight contracts. The extent of Mr Clinton's per-sonal knowledge of any and all of the above is in doubt, though

So far he has confessed only to a general awaren

But this is hardly the point, for he is the man in charge of the White House staff and it is in the hottest of waters, a mere three weeks after it was supposedly shaken up and down and reinforced by the arrival as deputy chief of staff of Mr Roy Neel, Vice President Al Gore's veteran and politically smart adviser.

The fundamental lack, a common argument goes, is that there is no one in the White House with the clout to say to the president, "This is wrong", or "Have you considered the political fallout?" Thomas "Mack" McLarty, the chief of staff, does not seem able to do this, Bernard Nussbaum, the legal counsel not long out of Wall Street, could apparently see nothing wrong with

approval of the agency's ultimate sooner or later he will be asked inviting the FBI to for help; even what he knew and when he knew it.

Mr Stephanopoulos himself, with supposedly sharp political antennae, did not see the danger signals. Mr Gore went on TV to deny

charges that the White House is too stuffed with the young and politically unsophisticated. "We've got a lot of veterans," he insisted. But former presidential candidate Paul Tsongas was closer to the prevailing wisdom when he said Mr Clinton "needs a few greybeards around

Though far from grey, it may be significant that his sharp campaign crew, James Carville, Paul Begala, Mandy Grunwald and Stan Greenberg, are being sighted more around the White House these days. It was, after all, Mr Carville who posted up the immortal placard, "It's the economy, stupid", to keep the Clinton campaign team's minds focused.

consciously set up this White House to his own liking. They are his sort of policy people and, collegial though their working environment may be, they do defer to him because they are in awe of his intellect and application. Therefore their

faults are seen as extensions of his. And it could not have come at a worse time. Perhaps it has provided some cover for the difficulties the administration has in explaining its Bosnian policies, but, domestically. it has distracted far more from the overriding order of business, which is to get the budget package

through Congres A president who is considered fair game by the press can become dead meat at the hands of Bob Dole, Sam Nunn, and half a dozen others at. the other end of town who probably think they can do the job better.

## Christopher reasserts US world role

By Jurek Martin

MR Warren Christopher, the US secretary of state, asserted yesterday that "the need for American leadership in the post-cold war world remains undiminished" and that the US stood "prepared to act decisively to protect our interests wherever and whenever it is

But, in a separate television interview, he argued that the US must limit its involvement in Bosnia or risk an "indefinite" military commitment. Americans, he said, had little enthusiasm for involvement "in a humanitarian crisis a long way from home in the middle of another continent".

His comments, backed by similar statements about US leadership from Ms Dee Dee Myers, the White House press spokeswoman, appeared intended to counter a speech given on Tuesday by an uni-dentified senior State Department official, believed to be Mr Peter Tarnoff, undersecretary for political affairs.

This off-the-record speech to journalists emphasised the primacy of US economic interests and the limits of US resources. US foreign policy must be "commensurate with these realities," and "may on occa-

president moves to tighten control

By Edward Oriebar in atemala City and Stephen

Guatemala

yesterday moved to tighten its control over the country, a day after President Jorge Serrano suspended the constitution and closed down Congress and the Supreme Court.

Although Mr Serrano said early on Tuesday that his move would not affect freedom of expression, the government was yesterday controlling radio and television broad casts. It has sent censors to monitor newspapers, while police surrounded the offices of the two largest morning

Opposition to Mr Serrano's action came from inside and outside the country. Mr Mario Solorzano, the minister of labour and a vice-president of Socialist International, resigned in protest at the He said the president had

removed the possibility of reaching peace in Guatemala and that he believed it would no longer be possible for international financial institutions to continue support for the government

Organisation of American institutions could follow



Anti-riot forces guard the National Congress doors

States are expected to meet in Washington on June 3 over Guatemala, following condemnation of the move by the US and almost all Latin American states, except for Peru.

Mr Serrano, whose action is seen as emulating Peruvian President Alberto Fujimori's so-called "self-coup" in April 1992, said he was thinking of telephoning Mr Fujimori.

A suspension of lending Foreign ministers of the from international financial

the OAS meeting. The government has a 15month standby arrangement with the International Monetary Fund which started last December, although the government has not drawn the \$54m available under the pro-

gramme. Loans for the country from the World Bank and the InterAmerican Development Bank, which has \$110m of test at the move. loans awaiting approval in the constitutional, legal or moral rights to take the measure he second half of the year, could



A Guatemala City protester yells anti-Serrano slogans

Many trials on the long road

to harmony in drug testing

Soldiers yesterday sur-did," he told journalists. He rounded the offices of a large called on different sectors of union umbrella group. Mr Alberto Villar, a committee member, said yesterday that his members would discuss the sibility of calling a nationwide protest.

The human rights ombudsman, Mr Ramiro de Leon Carpio, came out of hiding to pro-The president doesn't have

society to put pressure on the regime to reverse its measures. A spokesman at the British Foreign Office said the events in Guatemala had not led the government to rethink its decision to remove its garrison of 1,400 troops in neighbouring Belize. Guatemala has long claimed Belize, but a peace settlement resolving the territo-

rial dispute agreed by Mr Ser-

rano awaits ratification.

## Durable goods orders flat in US

US durable goods orders were flat in April, the Commerce Department said yesterday, and order backlogs shrank to the lowest level in 4% years as manufacturing business contracted, Reuter reports from

The unchanged orders total last month followed a revised drop of 3.7 per cent in March, previously reported as 3.4 per cent. The figure was much weaker than expected by Walt Street economists, who had forecast a 1.4 per cent rise in

April orders had been expected to rebound from March, when severe weather hampered production in a number of industries. But the Commerce Department report showed not only unchanged order volume but also fewer shipments of finished prod-

Total new orders in April were worth \$130.3bn (£84.6bn). Orders for defence goods, which experience wide monthly swings, rose by 2.9 per cent last month after 8.9 per cent in March. If defence is excluded, overall orders in April fell by 0.1 per cent after decreasing by 4.3 per cent in

"I found it to be a militly disappointing report," said Mr Dana Johnson, vice-president and economist at First National Bank of Chicago.

## **NEWS:** WORLD TRADE

## Delors makes services US call deal new Gatt priority

By Lionel Barber in Brussels

MR Jacques Delors, European Commission president, yesterday signalled a new flexibility in the Gatt global trade talks, urging all sides to agree to liberalise services such as banking and insurance. The call marks a shift in

emphasis since, six months ago, Mr Delors was outspoken in his defence of European farm interests in the Uruguay Round. The new focus on services echoes long-standing US and British arguments that the EC - and particularly France - should pay less attention to

Mr Delors' remarks came in a speech to the European parliament in Strasbourg, and reflect his concern about rising the Community's diminishing

TEN governments and steel

companies have submitted pro-

posals to the US Commerce

Department to settle 34

"unfair" trade cases in the

hope of escaping punitive American tariffs on their flat-

This is the first sign that the

cases could be settled with

"voluntary" limits on steel

trade like those agreed with

the US during the 1980s. The previous Bush administration

vowed not to resort to what are

Instead. Mr Bush said he

would stand back from the

"quasi-judicial" process under

which tariffs can be levied on

products judged to be subsi-

dised by their governments or

dumped at "less than fair mar-

ket value". The Clinton admin-

essentially steel quotas.

rolled steel exports.

By Nancy Dunne



Companies make offers to

settle US steel trade cases

change in steel policy.

istration has indicated no

The Commerce Department

now has until midnight on

June 21 to negotiate these pro-

posed "suspension agree-

ments" and to rule on 52 other

dumping and countervailing

duty cases filed last year by

the US steel industry. Trade

officials have indicated that

suspension agreements would

only be satisfactory to the US

producers if they included

Countries whose govern-

ments or steel producers sub-

mitted proposed suspension

deals are: Argentina, Australia,

Austria, Brazil, Finland, Ger-

many, Mexico, Sweden, Poland

Missing from the list are

some of the biggest suppliers

in Japan, Canada, the UK,

guaranteed price floors.

and New Zealand

France, and Italy.

In his speech, Mr Delors noted that between 1970 and 1990 the US had created 29m jobs. Japan 11m, and the EC 8.8m. "We need to think about interest in a Gatt agreement." The Commission president who has ordered a study of Europe's competitiveness and the unemployment crisis, recalled that services made up half of EC GNP but only 20 per

cent of EC exports. US and EC negotiators are making good progress in their efforts to wrap up a substantial Gatt market access package at the Group of Seven industrialised nations' summit in Tokyo in July, according to senior officials on both sides.

Both stress that Japan's will-ingness to offer greater access in financial services will be critical to a deal. The idea is to set a market access deal alongside the US-EC Blair House accord to form a broad foundstion for a comprehensive agreement to complete the Uruguay

ment of the 34 cases unless the

"unfair trade practice" or its

impact on US producers was

eliminated. No deal will be

acceptable unless it is "as

advantageous as the comple-

tion of the government's sub-

sidy and dumping investiga-

After June 21, the remaining

cases must go to the US Inter-

national Trade Commission

which determines if there has

been injury. If cases drop out of the process - through settle-

ment or a rare finding that

subsidies and dumping have

not taken place - the FTC com-

missioners could find it more

difficult to return an injury

three Republicans on the com-

mission, the ITC is now

believed to be more inclined to

With three Democrats and

## for Japan market access

By George Graham

US officials yesterday claimed progress in talks aimed at opening up Japanese financial services markets to US businesses, and said they would press for an agreement on market access by the Group of Seven summit in Tokyo in early July.

After talks in Washington between Mr Larry Summers, US Treasury undersecretary for international affairs, and Mr Tadao Chino, vice minister for international affairs at Japan's Finance Ministry, a US official said agreement on financial services was crucial to the general services section

of the Uruguay Round of talks on liberalising Gatt. The US has pressed for greater access to securities underwriting, asset management, banking and derivatives trading in Japan.

A Treasury official said the two countries had agreed to continue talks, particularly on derivatives, including stock ndex futures and options. · Striking transatlantic differences in attitudes to international trade agreements are revealed in a survey to be published this week, Tim Dickson

It shows that while a large majority of US chief executives consider the North American Free Trade Agreement far more important than the Uruguay Round of Gatt - and expect to benefit from it their European counterparts believe Nafta will have little impact on their economies. Three out of five European

chief executives believe agree-

ment on the Uruguay Round would strengthen their economies, with only half the Americans holding this view. The survey by the Conference Board also finds national budget deficits and healthcare costs are top of both European



mance are making things As new testing techniques become available, national requirements on drug launches become more onerous. It couldn't have come at a worse time - just as each expensively developed medicine needs to be brought rapidly into revenue generation on as many markets as possible, there are loud calls for closer international alignment of drug testing

It is not only the drug industry pushing for change. Farsighted regulators perceive that duplication of testing is not only a drain on resources but can also delay patient access to valuable new drugs. "Unnecessary repetition of tri-als is unethical," said the EC Commission's Fernand Sauer at a meeting in Brussels last month.

Moves towards harmonisation of requirements are nothing new in Europe's patchwork quilt of drug markets, where diverse rules complicate the lives of companies seeking international exposure for their drugs. In the European Community,

the first directive on pharmaceuticals in 1965 aimed at a balance: to "safeguard public health", but in a way that "will not hinder" trade in medicines. The latest stage of this EC development is the European Medicines Agency - now on

ropean harmonisation.

the point of becoming a reality. necessarily arcane, and its procedures byzantine: in prepara-There are also numerous moves to bring Efta countries tion for the Orlando meeting. and Central and Eastern expert working groups are Europe into a form of pan-Euhammering out the minutiae of guidelines on stability testing,



But the most ambitious recent initiative in pursuit of drug-rule harmonisation involves the big three: the USA's Food and Drug Administration, the Japanese Ministry of Health and Welfare, and the drug division of the Commission of the European Community, who are now co-operating with one another and with the drug industry as part of an International Conference on Harmonisation of drug regulation (ICH). A ICH meeting is planned for later this year, and some significant tripartite agreements are in prospect.
The subject matter of (CH is

on medicines for geriatrics, on dose-response studies, and on reproductive toxicology.

As Dr Françoise de Cremiers of Wyeth Ayerst Research in Paris says: "Industry and regulators believe that harmonisa-tion will reduce testing in animals and, eventually, in humans, and will promote earher access to useful new medi-Among outcomes listed by

Mr Kumeo Shirota, senior managing director of the Japanese Pharmaceutical Manufacturers' Association, are abolition of LD50 testing, shortened testing for repeated dose toxicity in rodents, and unification of some drug monographs. Mr Marc Duchne of Searle is more direct: "This will save us money and stop us killing so many animals," he says.

this level is far from easy - the search for accommodations between schools of thought in Japan, Europe and the US has repeatedly highlighted widely differing medical and cultural

Dr John Beary of the US Pharmaceutical Manufacturers' Association believes this is an important part of the ICH process. "In parallel to the scientific agenda, ICH is also promoting common managerial and administrative methods which help create a more efficient working environment." he claims.

Harmonisation isn't universally welcome, either. Standar-disation threatens the status of people working in health authorities or within multinational drug firms. And it can create discomfort: the strongest opposition to European harmonisation has come from countries where a strong national industry lobby feared that standardised drug evaluation would upset privileged relationships with national authorities, National pride can be as powerful a railying cry as international trade. Harmonisation is not a lin-

ear process, says Eigill Hvidberg, professor of Clinical Pharmacology at Copenhagen's University Hospital. "Even after agreement in principle has been reached by an international group of regulators on a common concept, it can take quite a time for the ripples to spread outwards so that everyone is ready to accept a common rule," he says.

This may be some time in coming. Progress on the European Medicines Agency has again slowed down this month, putting in doubt its 1995 start date. And an agenda is already under preparation for yet another ICH mega-meeting, in Tokyo, in late 1995. For the drug industry, there are cer-tainly no quick fixes in sight on harmonisation of regula-

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# According to public opinion, these men are graphic designers.

Our research department tells us that when the public at large thinks of people who use Apple" Macintosh" personal computers, they imagine graphic designers, creative directors, illustrators and otherwise artistically-inclined individuals.

They don't imagine financial directors, chartered accountants, sales managers or the sort of serious business Macintosh users you see in this photograph.

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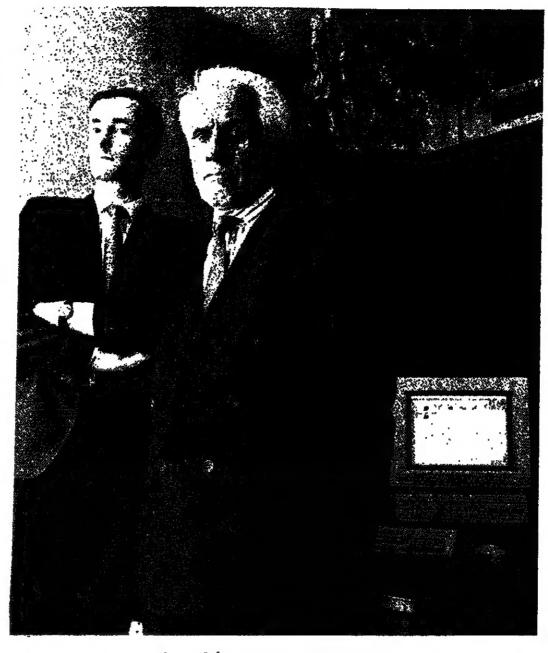
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Doug Schwegmann, Accountant.
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Other computer companies have adopted the friendly look and more obvious manifestations of Macintosh — a mouse, pull-down menus, an appealing screen with friendly pictures.

Yet studies continue to show that people who use Macintosh require less training and support, and are more productive, than people who use other types of PCs — even those that appear quite similar to Macintosh.<sup>3</sup>

Again, the explanation is simple: the Macintosh system began with the then radical notion that a computer should anticipate the way people work instead of forcing people to work like a computer. From the very first chip, the engineers made things harder on themselves so it would be easier for people. The computers and software that operate the

Macintosh have been refined, improved and expanded over the years, but they have grown from the original idea.

Other systems were conceived from the then popular view that computers are for specialists, that they are by definition complicated and require considerable training to learn. Today, they still carry the burden of those original assumptions — still relying on menacing codes, path commands and peculiar syntax that make them expensive to support and difficult to use.

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1. Supposted Relail Price, May 1993. for Classic It 4/80 excluding VAT @ 17.5%. 2. BYTE Magazine, November 1992. 3. "Desktop technology. A cost-benefit analysis." A life-cycle cost study conducted by Gartner Group, Inc., November 1993.

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# record high against \$

JAPANESE officials were yesterday at pains to damp speculation on foreign exchange markets about US support for a higher yen as the Japanese currency surged to a record Y108.65 to the US dollar.

Japanese government bond prices moved sharply higher. But the stock market's Nikkei average closed only 264,23 points up at 20,895.99.

The yen's renewed appreciation in Tokyo followed strong dollar selling in New York on Tuesday triggered by a US Treasury Department report to Congress stating that a higher yen could help reverse Japan's huge trade surplus.

The report said that while the administration believed exchange rates should reflect economic fundamentals, a decline of the dollar against the yen could be seen as a reflection of forces tending to limit and ultimately reverse Japan's widening trade surplus. The currency markets took it as indicating US support for a higher yen to reduce Japan's \$111bn (£72bn) trade surplus, a view which has been fuelled by comments from US

Yesterday's market reaction to the Treasury report is likely to have irritated Japanese officials, increasingly concerned that the yen's 12 per cent appreciation against the dollar since the beginning of the year could hold back the country's economic recovery, widely expected later this year.

Japanese officials said the market was overreacting and moved quickly to counter suggestions that it was US policy to guide the yen higher.

The Japanese authorities were joined in their attempts to damp speculation by Mr Lawrence Summers, US undersecretary of the treasury, who said in Washington the report did not aim to outline US policy but simply stated a fact. In April, President Bill Clin-

ton's remark that a stronger yen could reduce Japan's trade surplus led to a bout of dollar selling. While US officials attempted

to play down those remarks, Mr Ron Brown, US secretary of commerce, triggered a similar dollar sell-off by saying market-driven exchange rate movements could correct the US-Ja-

# Yen soars to Pakistan court curtails president's power

Farhan Bokhari reports on why Islamabad expects business confidence to return

of Pakistan's politicians. Yes-terday's decision by the supreme court in Islamabad has returned the country to the path of democratic development five weeks after it seemed in danger of being derailed.

In a landmark decision, the court reversed last month's dissolution of the National Assembly and restored to office the government of Prime Minister Nawaz Sharif.

President Ghulam Ishaq Khan's dismissal of the government on April 18 was the third time since the lifting of martial law in 1985 that a prime minister had been sacked while in office, under powers introduced by the late military dictator, General Zia ul-Hag.

The constitutional amendments had strengthened presidential powers, allowing him to remove prime minis-ters, dissolve parliament and call

But the supreme court's ruling has apparently ended those arbitrary pow-ers, or at least severely curtailed their use by any president in the future. Mr Sharif's attempt to secure a vote in the National Assembly on curbing the president's powers had led to his

Mr Sharif was due to call a session of the 217-seat assembly to seek a tresh vote of confidence, intended to reinforce his political credentials, close aides said after the court ver-

However, the session could equally provide an opportunity to unseat him again. Mr Sharif's opponents in parliathe president, had been discussing ways to vote Mr Sharif out should the assembly be restored.

Mr Hamid Nasir Chattha, who resigned from Mr Sharif's cabinet before his government was sacked. said last night that "the matter is not over". He said dissidents from Mr Sharif's party would continue to oppose him in the assembly.

Politicians loyal to Mr Chattha said the dissidents were examining the possibility of an alliance with the opposition People's Democratic Alliance, led by Ms Bhutto, in an effort to remove the restored government. However, the extent of support on both sides in the assembly is unlikely to become clear until members begin to express their opinions in parlia-

The Sharif camp remains con-vinced that it has the support of enough members to block

any such moves. If Mr Sharif survived the vote, it would clearly be difficult for him to co-exist with Mr Khan, since the two men are now bitter enemies. Mr Sharif could be further undermined by the four provincial governments, which are known to be loyal to the president and have an uneasy relationship with the prime minister.

In Pakistan's 46-year history, army generals have ruled for 24 of them. Under civilian rule, Pakistan has seen 13 prime ministers, most of whom were removed from office or resigned

before completing their terms. Despite the army's past role in running the country, yesterday's court

HE BALL is back in the court tion leader Ms Benazir Bhutto and to decision followed several weeks of assurances from military officials that they have no plans to take

> Nevertheless, the restored govern-ment faces huge political as well as economic challenges. Mr Sharif has overseen a period of radical economic reform but appeared to be running into problems at the time of his dis-

> The fiscal year which ends on June 30 is expected to close with one of Pakistan's largest budget deficits. Tax evasion and substantial expenditures on defence as well as debt servicing have left little room for increasing development expenditures. A thriving black economy which is estimated by some to be almost half the size of the national economy has set back efforts to improve revenue collection.

Foreign exchange reserves dipped to \$450m (£292.2m) from \$800m when the government fell. However, Mr Sartaj Aziz, who was finance minister under Mr Sharif and is now likely to return to the same position, said last night that the court's decision will end the uncertainty.

The restoration of the government will restore business confidence," Mr Aziz said, adding that economic reforms would be put back on track. that Mr Aziz and other ministers would hold a series of meetings with business leaders within the next week, in an effort to revive confi-

They are expected to assure businesses that initiatives such as the privatisation programme will go ahead



Nawaz Sharif greets supporters after the Supreme Court ruling yesterday

## Japan seeks better links with China

By Robert Thomson in Tokyo

THE JAPANESE government is to propose to China that the two countries resume bilateral security negotiations, frozen after the crushing of the Chinese democracy movement four years ago. Japanese officials will raise

the sensitive issue during a visit by Mr Qian Qichen, the Chinese foreign minister, due in Tokyo this Saturday, in the hope of drawing Beijing into regional security discussions amid raising concerns about the expanding capability of the People's Liberation Army.

The Japanese foreign ministry is divided over how to handle China's increasingly sophisticated military technology, which some officials fear is changing the balance of power in the region and creating a potential long-term

But the Chinese government does not welcome outside advice on the conduct of its military affairs, and the Japanese government would like Beiling to participate in broader discussions on regional security, which could include China's capabil-

Japan would also raise issues such as North Korea's military intentions and its pullout from the Nuclear Non-Proliferation Treaty, as well as the changing role of Russia in the region and the future of Cambodia. The formal forum for negota-

tions were cut in 1969 in protest at the People's Liberationa Army's role in the crushing of the Chinese democracy movement, but Tokyo has become anxious to restart discussions and believes Mr Qian's visit provides an appropriate oppor-

Mr Hiroshi Mitsuzuka, a faction head of the ruling Liberal

Democratic party, expressed concern about the modernisation of China's military, highlighted by a planned 14.9 per cent increase in spending for fiscal 1993, but the Japanese government generally has been timid on the issue.

Japan's concerns were ech-oed earlier this month by Mr Goh Chok Tong, Singapore's prime minister, who suggested that China will not be a significant military threat over the next five years, but that continuing economic growth could be accompanied by an expan-sion of military ambitions in about 20 years' time.

## abducted in Yemen

TWO US oilmen working in a remote part of Yemen have been abducted by tribesmen, Reuter reports from Sana.

The two Americans and their Yemeni driver, all working for Dallas-based Hunt Oil, were ambushed on Tuesday afternoon in an area where Hunt has a big concession. The government was negotiating for their release, a company source said.

Several Hunt employees have been abducted in the past two years by tribesmen. All have been released unharmed.

#### Iraqi Kurdistan villages shelled

An Iranian Kurdish rebel group said Iranian gunners shelled a dozen villages in Iraqi Kurdistan yesterday, injuring 12 people including a baby, Reuter reports from

The Democratic Party of Iranian Kurdistan (PDKI) said its headquarters just inside Iraq near Qala Diza, 320 km north-east of Baghdad, came under heavy artillery attack over the past two days.

#### Zambian troops at Angolan border

Zambia yesterday said it had deployed troops along its 850 km border with Angola to pre-vent Unita rebels from attacking, Reuter reports from

"Unita has been threatening to attack us for a long time now so we have sent troops to the north-western provinces," a Defence Ministry official told

Thousands of Angolan refu-gees have fled into Zambia since the civil war resumed between the Angolan government and Unita (National Union for the Total Independence of Angola) after the reb-els rejected their defeat in Sep-

## US oilmen Asia looking to gas for expanding energy market

By Kleran Cooke in Singapore

ASIA'S energy capacity is set to expand to a will surpass capacity of the US by the year 2010, an Asia energy analyst said yesterday

at a Financial Times conference in Singapore. Mr Daniel Goldman of US energy specialists Arthur D Little said governments, the private sector and the multilateral agencies not only had to find the funds for power generating expansion, they also had

He said gas fuel was an mainly because of cost and environmental factors. While Asia had abundant gas reserves, a tripling of demand

to find adequate supply s of

now and the year 2000 would result in regional supply shortages. At present about 12 per cent of Asia's power is generated by gas.

Mr Guy Doyle, associate editor of International Coal Report, said coal accounted for about 36 per cent of total generation in the region. While he accepted that gas

was the most favoured fuel, India and China, the region's two biggest coal users, would continue to get the bulk of their power needs from coal. Some speakers at the conference said that serious environmental problems would occur in the medium term if China and India did not switch to other fuels or invest in new,

more technologically advanced Mr Woodrow Williams of General Electric Nuclear

able interest in its use in most Asian countries. Japan, South Korea and Taiwan already had considerable nuclear energy programmes. Indonesia, Thai-land and Malaysia were investigating the possibilities of

nuclear power. Mr Frank Gray, conference chairman and editor of the Power in Asia newsletter, said that over the past year several governments in the region had implemented or announced plans to privatise their power utilities and had also made conditions more attractive for private sector participation in

"The Philippines, which has been gripped by a power crisis, now says that the immediate problems will be solved by the for everyone remains one of money. If power in the region Energy said nuclear energy is to grow as forecast, emor-had become more acceptable mous sums of capital have to for gas in the region between and that there was consider be mobilised," said Mr Gray.

## China frees dissident as EC team probes human rights

By Tony Walker in Beijing

AN UNREPENTANT Mr Xu Wenli, one of China's longest serving dissidents, was freed from jail yesterday three years before his 15-year sentence expired. His early release, apparently aimed at calming criticism in the West of human rights violations, came as China faced censure over an EC mission to Tibet.

Appearing gaunt and with several of his teeth missing, Mr Xu denied any wrongdoing on his release, saying his political activities had been "for my

country and my people". Mr Xu, 49, one of China's best-known dissidents, was arrested in 1981 and sentenced the following year. He had been publisher of an under-

ground magazine, April 5 Forum, during the Democracy Wall protest period of the late 1970s and is the sixth political prisoner to be given early release this year. The Chinese gesture coincides with Washington's decision, due by next week, on renewal of China's Most Favored Nation trading status. It also appears to be aimed at improving its chances of securing endorsement for the right to stage the 2000

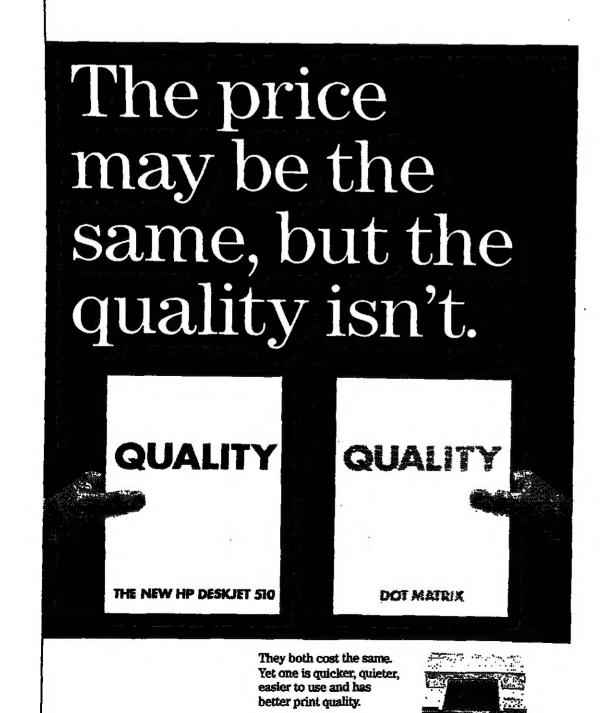
Mr Xu's release came as EC representatives met in Beijing to complete a report of their recent mission to Tibet. The mission ended in recrimination at the weekend with envoys protesting over detention of two Tibetans who had been planning to make contact.

Olympiad.

The streets of Lhasa, the Tibetan capital, were reported calm yesterday after disturbances on Sunday and Monday in which large crowds of pro-testers were dispersed by tear gas. Foreign travellers reported hearing automatic gunfire.

Kieran Cooks adds from Singapore: China says it will not use force to pursue its claim to the Spratlys, the disputed group of islands in the South China Sea.

Mr Chi Haotian, the Chinese defence minister, who is visiting Malaysia, said China still insists on its "historical right" to the Spratly islands, But Mr Chi said China also accepted the "differing opinions" of other claimants - Malaysia, the Philippines, Vietnam, Taiwan



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The FT proposes to publish this survey on June 25 1993 Greece's complex inter-

nal and external problems will be analysed in depth in a broad-ranging and comprehensive survey to be published by the Financial Times.

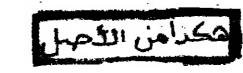
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FT SURVEYS





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## Mandela plea after | Keating pays price of promises radicals quit talks

MR Nelson Mandela, president of the African National Congress, yesterday sought to maintain the momentum of the country's democracy negotia-tions after the ultra-radical Pan Africanist Congress said it was suspending participation

PAC President Clarence Makwethu announced the PAC would boycott constitutional negotiations until police released all members of the PAC and its armed wing, the Azanian People's Liberation Army, detained since Tuesday. Police said 73 people had been arrested, with 15 released yes-

Mr Makwethu also called for the return of documents and computers seized in raids on PAC offices throughout South

But Mr Mandela urged South Africans not to panic over the issue, saying: "Since we began the negotiating process in 1990, we have had a number of problems. This is one of them. "I'm sure that the demo-

cratic forces are strong enough to overcome this crisis.

The PAC's decision to boy-



cott talks could make it difficult for the 26 negotiating parties to meet their self-imposed deadline of June 3 for agree ment on a date for the first

multi-racial elections. But on its own the PAC, believed to have only limited electoral support, cannot block

progress. Controversy has arisen over the fact that the government's chief negotiator, Mr Roelf Meyer, was not informed about the arrests, which have come at a critical stage in the negoti-

to the arrests, saying it would act "brutally and ruthlessly" against white South Africans unless police immediately

freed their members. Government officials said racist rhetoric such as this prompted police to act against members of the PAC, whose followers have adopted the slogan "one settler, one bullet". Although the military strength of the PAC armed ving, APLA, is minimal, individuals claiming to be APLA members have carried out numerous murders of white farmers and holidaymakers in recent months, seriously damaging white morale.

The PAC leadership has been ambivalent at best when asked to condemn such attacks. Police say they expect to charge many of those held for various crimes, including mur-

Meanwhile, the ANC distanced itself from a demand made last weekend by Mr Mandela for the official voting age to be lowered to 14. Mr Mandela shocked politicians across South Africa's spectrum when he made the call in an apparent bid to win support

Emilia Tagaza on Australian budgeting after unexpected election win

S THE Australian bud-get-framing season gets under way the newly e-elected Labor government is buckling down to the task with a starting-point deficit of at

east A\$15.9bn (£7.1bn). Mr Paul Keating, the prime minister, grappling with record unemployment, has promised to create 500,000 jobs during his three-year term. The extra stimulatory spending required is in addition to the A\$4.5bn he has injected over the past 12 months to prod the stubborn economy into life and pull down the unemployment rate The problem for Mr Keating is that even without additional new spending, the deficit over the next three years, barring

to remain high. His government is pledged to deliver personal tax cuts, worth A\$8.6bn between 1994 and 1996. Other expensive preelection spending promises are expected to cost another A\$2.2bn over the next three

an economic miracle, is likely

The package is part of a Dutch auction between Labor and the opposition conservative coalition parties - a cynical vote-buying exercise by a demoralised Labor party which had held little hope of being

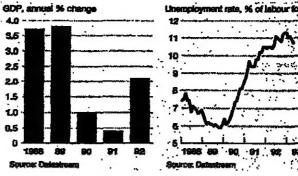
Australia

86/9 89/90 90/1 91/2 92/3

re-elected. Perhaps it was for this reason that it did not count on having to deliver the package which offered something to important voting blocs: women, pensioners and small business.

Few were surprised when only two months after its return to power, the government backed down on some of its pledges, including an A\$100m to buy out private hospital places to reduce surgery

The promised tax cuts will be more difficult to break because they have been enshrined in law.



between 1992 and 1993 has been eral treasurer, said this week the government would have to adjusted to between 2.5 and 3 cut A\$2bn from existing programmes to keep the 1993-94 budget deficit to A\$16bn. Labor's hopes that import

tariff reductions (from 20 per cent in the mid-1980s to 5 per It may have just about exhausted its arsenal however. cent by the end of the century) All the fiscal stimulus of the would, by exposing it to interlast 12 months and all the national competition, make interest rate cuts over the last Australian industry more efficient and provide long-term the hoped-for private investeconomic growth have so far been unfulfilled.

Official figures released yesterday show a 9 per cent drop in Australian capital spending during the three months to March

Mr Keating's forecast of an The government is under average 4 per cent growth pressure to pause, or at least

Jobs have been lost rather

than gained. Manufacturing

turnover in 1991-92 was 2 per

cent less than the previous

cuts. A pause could bring in otherwise be lost to tariff cuts. deficit in the current account puts extra constraints on government spending. The latest monthly figure, a deficit of A\$2.1bn, was the highest

monthly shortfall in more than The high current account deficits recorded in the last eign debt of A\$168bn or 43 per cent of gross domestic product. For the moment, low world interest rates have reduced that service to 14.5 per cent of

export income from a peak of

An alternative measure which could help keep the lid on the budget deficit is to raise taxes. However, Mr Keating is not prepared to discuss this, at least for the moment.

He is in the prime minister's seat today because he ran a scare campaign against the conservative opposition's proposed goods and services tax. To talk about it early in this term would dent his political credibility. However, the national interest may yet cause him to back down on another election promise.

## Khmer Rouge keeps the world guessing



time when mere mention of the words Khmer Rouge was enough to strike fear into the hearts of

ELECTIONS was Khmer Rouge cadres who executed, starved and tortured to death about 1m people in the attempt between 1975 and 1978 to build a rural, racially pure and com-

More recently, the Khmer Rouge has violated a 1991 peace agreement and killed several United Nations peacekeepers, including three Bulgarians gunned down in their UN camp by previously las they had invited to supper. The Khmer Rouge's confused response to the UN-organised

election this week, however, has dented its reputation for single-minded ruthlessness. Khmer Rouge radio broadcasts, notices pinned to trees, and visiting bands of guerrillas had warned Cambodian villag-ers not to vote, on the grounds

that it would legitimise the

government installed in 1979 by the Vietnamese invasion which overthrew the Khmer Rouge regime. Voters were threatened with death.

Not only were the threats ignored (the turnout was at least 85 per cent), but Khmer Rouge leaders in several districts actually let people go to the polls and encouraged them to vote for the royalist party Funcinpec, the main opposi-tion party standing in the elec-tion. Widespread attacks on polling stations, expected by the UN, did not materialise. The Khmer Rouge seems to have dithered and then decided

against an all-out assault on the vulnerable polling stations scattered across the country, in the hope that funcineec, its former ally against the Viet-namese occupation, will win a majority and grant the Khmer Rouge a role in government. Prince Norodom Ranariddh, Funcinpec leader, has promised to hand executive power to his father Prince Norodom Sihanouk if Funcinpec wins, and Prince Sihanouk, backed by China, had spoken of the need to bring the Khmer Rouge into government in the interests of national reconciliation. The many enemies of the Khmer Rouge in Cambodia and abroad are worried that Prince

Sihanouk, far from punishing the organisation for its intran-

is poised to reward it with an

undeserved share of power.

Victor Mallet reports from Phnom Penh

They argue, it would be folly to let the Khmer Rouge into a weak coalition government without insisting its guerrilla army be dismantled.

Prince Sihanouk yesterday sought to ease fears that he might accommodate the Khmer Rouge by completely reversing his stand on the issue. He told European parliamentarians the guerrillas had suffered a defeat from which they would not recover and he participation in government.

"The election is a great suc-

cess for Cambodia and the world, and an unbelievable defeat for the Khmer Rouge," the notoriously fickle prince was quoted as saying by Mr Claude Cheysson, the Euro-pean MP and former French foreign minister.

The Khmer Rouge is keeping its options open, and its fighters are prepared to continue the civil war if necessary.

According to Mr Yasushi Akashi, chief of the UN Transitional Authority in Cambodia, Khmer Rouge front-line mili-tary strength has increased by 50 per cant to about 15,000 men since last year: "They seem to be headed by more dedicated, more determined, more active and aggressive commanders."

Mr Akashi's figures are disputed - other estimates sugst there are 12,000 Khmer Rouge front-line troops - but there is no doubt that Khmer Rouge guerrilla units have used the 19 months since the peace agreement to seize terri-tory previously controlled by allies such as Funcinpec.

has vowed to treat Khmer Rouge fighters as bandits if it wins the election, but there are doubts if the guerrillas can be crushed in the same way as previous communist insurgen-cles in Malaysia or Thailand. Before contacts between the

UN and the Khmer Rouge were severed a few weeks ago in the face of Khmer Rouge threats, the guerrillas in some districts impressed UN military observ-ers with their discipline and smart uniforms; they apparently treated villagers well and paid for the rice they took. In other areas, however, they are notorious for forcing peasants to work for them and for seizing control of paddy fields by

planting mines. Khmer Rouge leaders struck a sympathetic chord with nationalistic Cambodians by massacring immigrant Vietnamese fishermen and condemning corruption in the Vietnamese-backed Cambodian government, but their own dealings with corrupt generals from Thailand (Cambodia's other traditional enemy) have

not gone unnoticed. Publicly, Khmer Rouge leaders admit to "mistakes" in the past and say they are free marketeers rather than communists. Most Cambodians, however, are convinced they sigence and unwillingness to submit itself to a popular vote, have neither repented nor abandoned their own destructive brand of leftism.

# Company Location: What's New in Europe!

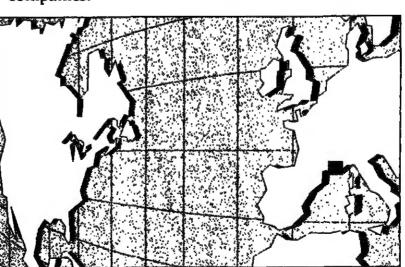
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# M-way privatisation

ious to play down motorway

privatisation, making no men-

tion of it as he launched the

document, known as a green

By Richard Tomkins, Transport Correspondent

THE GOVERNMENT faced fresh controversy over its transport policies yesterday as it set out proposals for following the privatisation of the railways with a scheme for privatising UK motorways.

A consultation document published by the Department of Transport suggested that the motorways could be put on a profitable footing by charging people to use them. Car drivers could face pay-as-you-go tolls of up to 1.5p a mile or an

annual fee of up to £75. Private sector companies could then be invited to compete for franchises to operate the motorways, using the revenue produced by the charges to fund the construction of extra lanes or new roads.

Mr John MacGregor, the transport secretary, unveiled the proposals yesterday mornhours after narrowly surviving a House of Commons vote on the government's controversial privatisation of British Rail - opposed by several Tory MPs - which is also based on a system of route

Taking the world view.

But Mr Norman Lamont, the Chancellor, was simulta-

neously telling a Confederation of British Industry conference that motorway charges "could pave the way for the privatisation of large parts of Britain's motorway network." Mr John Prescott, the opposition Labour transport spokes-

privatisation would benefit only the Treasury.

Motoring organisations warned that motorway charges would only be acceptable if there were guarantees that the money was used for extra

man, called the plan "another

poll tax on wheels" and said

the revenues from charges and

spending on roads. Mr MacGregor said motorway charges were being pro-posed because the government could not afford to finance the construction of enough new road capacity to stop existing motorways becoming clogged up by congestion. He stressed that the govern-

ment was not committed to any of the proposals in the big public debate," he said.

"We have no blueprint, nor have we taken any decisions." Mr MacGregor said he had already ruled out toll booths as a way of collecting money because they would take up too much land, leaving annual permits or electronic tolls as

the two remaining options. Of these, the annual permit was the least satisfactory because it charged everyone the same regardless of the use they made of the motorways, Mr MacGregor said, but an electronic system would not be available until at least 1998. The consultation document

suggests that charges for lorries, already taxed more heavily than almost any in Europe, would be much higher than those for cars. The option yielding the most revenue -£700m a year - would leave car drivers paying 1.5p a mile or £25 a year, while lorry drivers paid 4.5p a mile or £75 to £750 a year, depending on the vehicle's weight. Many motor-ists would be unaffected by the charges because less than 50 per cent of them use the motorways regularly, the green paper says.

Editorial Comment, Page 21

## Government considers Lamont sees no limit to private financing

By Andrew Taylor,

THE UK government yesterday told employers that there was no limit to the number of public developments which could be financed by private invest-

Mr Norman Lamont, chancellor of the exchequer, said Britain should follow overseas models in using private capital for infrastructure schemes such as road building.

Speaking at a conference. organised by the Confederation of British Industry, he said: "From now on, any project user charges and can satisfy the normal planning requirements can proceed."

"All over the world people, people have come to see what private finance can do. They are familiar with with privately financed roads in Asia and North America and there is absolutely no reason why the benefits of private finance should not be enjoyed more

widely in Britain too." The chancellor said private finance could transform the way in which major capital projects were carried out in Britain in the 1990s - in the

which can be paid for from same way that the country had user charges and can satisfy been transformed in the 1980s by the privatisation of state owned industries like telephone and water services.

Addressing the same conference, Mr Howard Davies, director general of the CBL, the employers' organisation, urged the government to establish a separate agency to promote joint ventures between the public and private sectors.

Private sector involvement in investments traditionally financed by the public sector required a degree of partnership between government and industry "which has been all

Mr Lamont said the government was prepared to consider joint ventures where developments could not be justified on commercial grounds alone but provided worthwhile social

The chancellor for the first time gave some guidance on how these might work: "In many cases, I hope that the project's promoter will retain all the equity in the project with the Exchequer simply

making a one-off contribution." The size of this public sector contribution might be determined by bids from competing

rival private sector promoters Bids that require heavy public sector investment would seem less likely to succeed than those offering greater private

sector involvement. Mr Lamont said any protect could proceed if it satisfied three principles: value for money for taxpayers; compett. tion between private participants in joint ventures, and a substantial degree of risk to

the private sector. We cannot look to public finances to fund the kind of improvements to the road network we all want to see," he

year when investment confi.

## Oil workers face derecognition

By Robert Taylor, Labour Correspondent

SHELL will next month derecognise trade unions at a refinery in the Thames Estuary in a move seen by the Transport and General Workers union as part of a wider strategy to drive the unions out of Britain's oil industry.

Mr Fred Higgs, the TGWU's national oil industry officer yesterday accused the oil companies of "collusion to achieve a union free environment". Both BP and Esso have made

moves to derecognise unions in

parts of their operations while

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last year all the companies except for Mobil - scrapped union agreements in oil distri-The company says it is imposing the move to cut its

operating costs, improve efficiency and maximise its investments in a depressed but highly competitive European refining market. Shell intends to push

through sweeping changes in working practices. This will involve the creation of team-work with the abolition of demarcation lines and the establishment of staff status for all Shell Haven workers.

Shell is also planning to introduce individual appraisal for workers to determine their pay replacing annual collective bargaining with unions. The company also intends to contract out work - starting with canteen and security jobs but possibly extending to maintenance work.

Workers will still be able to remain union members but all the company's formal negotiating agreements with the unions are to be scrapped. In a confidential briefing for its managers Shell says it intends to make the refinery virtually strike free as well.

#### Britain in brief



UK-Belgium gas pipe plan needs £290m

Construction of a £290m gas pipeline linking the UK to Belgium could start at the end of next year and be completed by 1997, according to the companies that launched the project yesterday.
The steering committee of

seven companies which have been studying the feasibility of the link are planning to distribute a prospectus next week. They are trying to gauge the extent of market Interest in the project in the hope of raising funds for its construction.

The pipe would carry 15bn cubic metres of gas a year to Zeebrugge in Belgium from where it could be distributed throughout the European gas

The companies involved in the project which include Brit-ish Gas, British Petroleum and Norway's Statoil are believed to be planning a pool system for offering spare capacity in the pipe.

Energy companies are expected to be asked to agree 20year contracts for sending gas through the pipe.

#### Court of rights rules on Ulster

The government's powers to arrest and detain terrorist suspects do not violate human rights, the European Court of Human Rights in Strasbours ruled. The situation in Northern Ireland justified an exemption for Britain from a requirement under the Human Rights Convention to bring suspects "promptly" to court.

The judges voted by 22-4 to reject a complaint by two Northern Irishmen who claimed their human rights were breached when they were arrested and held under the Prevention of Terrorism Act.

Peter Brannigan, 29, from Downpatrick, and 42-year-old Patrick McBride, from Belfast, were arrested in January 1989 and held for six days 14 hours and 30 minutes and for four days six hours and 25 minutes

#### Building still in recession'

Much of Britain's construction industry remains in recession. despite the recent revival in housebuilding, according to separate statistics published yesterday by the Environment Department and Blue Circle the country's biggest cement

producer. Orders received by contractors in Great Britain rose by 2 per cent during the first three months of this year compared with the first quarter of 1992, according to the department.

Construction orders were 22 per cent higher than during the final three months of last

## dence fell sharply in the wake of Britain's withdrawal from Swan Hunter

wins lifeline

The Ministry of Defence has agreed that work on three Type 23 frigates can continue for another two weeks at Typeside shipbuilder Swan Hunter receivers Price Waterhous

Mr Ed James, head of the receivers' team at Swans, said verbal agreement had been reached with the MoD for outfitting on the three frigates to continue on the Tyne until Friday June 11.

News of the extension of work on the frigates, Swans main current workload, provides a lifeline for the company, which is fighting to retain a core workforce, secure further orders and strengthen its chances of being sold as a going concern.

#### BR wins case to close pits

British Coal's plans to sell off 20 mines to the private sector were advanced when the High Court ruled the corporation could go ahead with the shutdown of the first 10 pits in its

closure programme. Two High Court judges ruled British Coal could legally shut the 10 pits since the corporation had now complied with the court's conditions. imposed last December when the programme was declared illegal, for genuine consultation to take place with the mining unions

#### Ferry company may be sold off

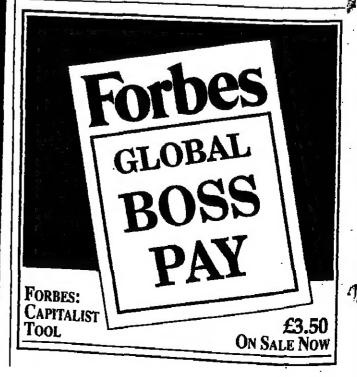
The government is to study the possible privatisation of Cale-donian MacBrayne, the stateowned ferry company which provides services to the Hebridean islands off the west coast of Scotland. The idea of privatising Caledonian MacBrayne, which enjoys an annual government subsidy of around £7m, is likely to be an emotive one. It has already caused protests from Labour and Scottish National Party MPs, and will worry some Conservatives

#### Nissan freezes recruitment

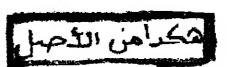
Nissan, the Japanese carmaker, has frozen recruitment at its Sunderland car plant and is not retaining temporary contract workers, because of the downturn in European car

Confirming the measures yesterday, the company said: The climate is very difficult." But it stressed that Nissan Motor Manufacturing UK and its managing director Mr Ian Gibson were absolutely committed to ensuring there were no redundancies at the plant. "He will fall on his sword before that happens," the com-

pany said. The plant employs 4,600. During its rapid build up in recent years the plant has taken on temporary workers during surges in demand.







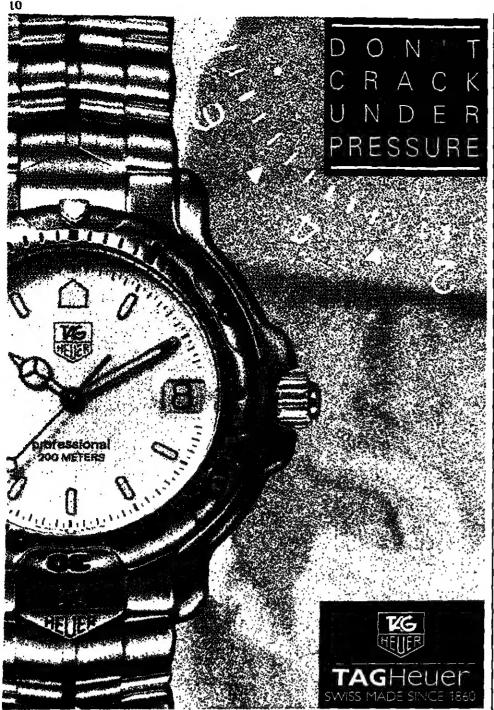
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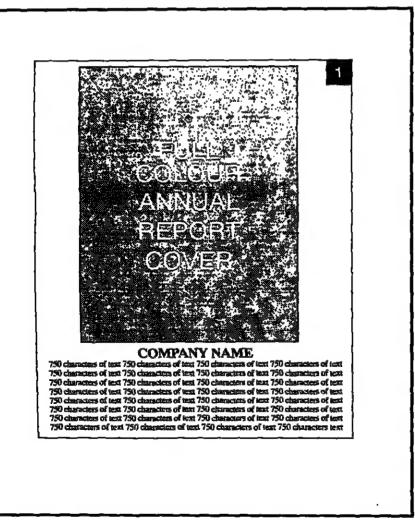
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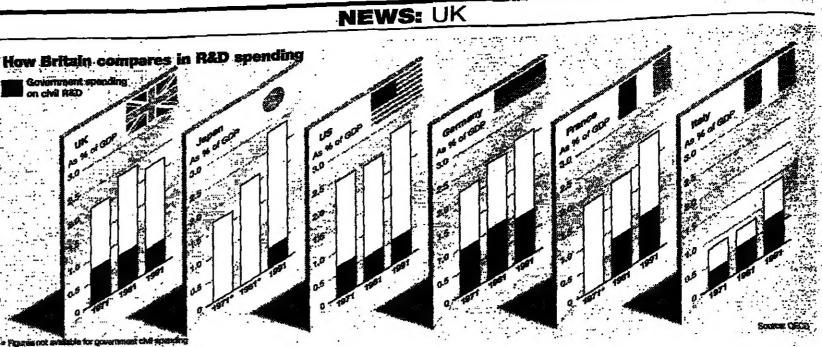
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## Science strategy links UK's foresight wealth to research

By Clive Cookson,

THE first new UK government strategy for science and technology for 21 years was unveiled yesterday, with the emphasis on harnessing research more closely to

wealth creation. The most innovative feature of the policy paper on science is to introduce "technology foresight" - a new method for picking the areas of research that are most likely to produce winning products for British

industry.
Mr William Waldegrave. minister for science, said the foresight exercise would involve widespread consulta-tion between his Office of Science and Technology and experts from industry and uni-

Another unexpected change in policy concerns new arrangements for training postgraduate scientists and engineers. The MSc will become

the normal first post-graduate degree and fewer students will go on to do a PhD.

as tax credits for industrial research and development. Industry broadly welcomed

The policy paper also announces widely expected changes in the way the government manages its 15bn a year spending on research and

its two main advisory committees are replaced by a new powerful Council for Science and Technology, chaired by the science minister and containing representatives from industry and universities.

But there is no far-reaching transformation of the existing science policy structure and some government departments, notably the Ministry of Defence which spends 40 per cent of public R&D funds, are hardly affected.

The paper - which is entitled 'Realising our potential: a strategy for science, engineering and technology" - rejects all the radical ideas that had been proposed during the year-long consultation period, such

the paper as providing a clear and sympathetic policy frame work for the next five to 10 years, while academic bodies and scientists were more guarded - and opposition parties condemned it.

Mr Lewis Moonie, the Labour science spokesman, called it "a complete failure" and predicted that it would be a "bitter disappointment" to scientists.

Save British Science, the main scientific lobby group, complained that Mr Waldegrave had failed to obtain any of the additional resources that would be needed to implement the new strategy.

But he insisted that it "puts science and engineering back where they belong - on the top of the agenda for solving our current problems and raising our future prosperity."

Editorial comment, Page 21

## to follow Japan, Germany and US

By Clive Cockson, Science Editor

THE CENTRAL theme of the government's science and technology strategy is to harness research more effectively to wealth creation - and the technique chosen for doing so is "technology foresight".

As the term is used now. foresight is quite different from old-fashioned technology forecasting. Foresight is a much more active exercise in influencing the future. It is a way of picking winners - not in the form of specific projects hut as strategic areas.
The government's new Tech-

nology Foresight Programme will be overseen by Prof Bill Steward, chief scientific adviser. Panels of experts to carry out foresight assessments for a wide range of technology sectors.

The point of the exercise is to evaluate the fit between

 Trends in science and availability of strong research groups to work in the most promising areas (science

the evernding alm is to with

 Emerging economic devel-opments and the existence of companies in the UK with the ability and desire to devel and market the results of th research (demand-pull).
The results of technology

foresight will affect all govern ment decisions on research

In other countries foresight is much more wide-ranging than in the UK. "For example, in Japan and now Germany and the US, foresight exercises take place within companies within industrial associations within individual government departments or funding agencies, and spanning all research," Mr Martin says.

The first report of the Tech-nology Foresight Programme is due at the end of 1994.

Bank faces

## Trading soars in overseas equities

NEARLY half the shares traded on the London Stock Exchange in the first three months of 1993 were from overseas, according to figures released by the exchange yes-

Turnover in international record level. It reached £116bn in the first quarter, compared with £138bn (up 18 per cent) for English and Irish equities. International equities made up 46 per cent of total equity turn-

TV takeover

rules to be

reviewed

By Raymond Snoddy

sharply, rising 24 per cent to

The proportion of interna-tional trading continued to rise after the quarter was over. In April, according to Mr Quentin Smith, the exchange's market analyst, 54 per cent of equity trading was in international equities rose 34 per cent to a stocks, the highest figure since early 1990, when domestic vol-

ume was particularly low. Mr Stephen Wells, the chief economist of the London Stock Exchange, said that criticisms of limits on the transparency of stock market dealings in mise announcement expected Britain are unfounded or early next month. The compro-

Writing in the spring issue of the Stock Exchange Quarterly, published yesterday, he addressed the questions of whether and when details of stock trades should be pub-Currently, details of large

trades are published after a 90 minute delay. Discussions about changing the rules are under way between the marketmakers, the exchange, and the regulators, with a compro-

mise is thought to involve a greater delay in the publica-tion of very large trades.

Mr Wells concludes: "The undoubted strength of London's markets is the commitment to provide liquidity. This commitment could not continue if the positions of market-makers were effectively on display - which is what total transparency means. . . Markets which fail to meet the needs of users will lose business to markets that do."

BAs expects to reduce the net cost of the settlement by

The government has agreed to deposit the £15.4m in special

accounts and held until the tax

BAe said yesterday that the

£42.2m net cost of the repay-

ment will be added to the origi-

nal £150m purchase price for Rover increasing the total cost of the acquisition to £192.2m.

But the settlement is not

expected to have an impact on

current year profits at BAe

because the cost will be

charged against the acquisition

reserve created at the time of

The company yesterday wel-comed the final conclusion of

the controversial Rover "sweet-

the deal.

eners" saga.

£15.4m to £42.2m.

position is clarified.

## losses of £115m on past loans

By Robert Peston, Banking Editor

THE BANK of England faces losses of £115m on loans it made in the past two years to prop up a number of financially troubled small banks.

The Bank made the disclosure that it made £115m provisions against possible loan losses in its 1993 annual report. published yesterday.

The report also says Mr Robin Leigh Pemberton, the Bank's retiring governor, was paid £227,000 last year, 15 per cent higher than in the previous year.

However, in both years, Mr Leigh Pemberton waived his entitlement to £34,135 of the remuneration.

Mr Leigh Pemberton's pay rise is likely to attract controversy, since the Bank's performance, especially its supervi-sion of the Bank of Credit and Commerce International, the corrupt international bank has been much criticised

The Bank said that in 1991 it organised a financial lifeboat to rescue a handful of small and medium size banks. These banks were facing a crisis. because financial institutions

were withdrawing deposits. After consulting the Treasury, the Bank decided to pro-vide indemnities to clearing banks which made loans to these small banks. Over the following year, several hundred million pounds of Bankguaranteed loans were made to a handful of small banks.

In total, the Bank kept a close watch on 40 banks, which it believed were vulnerable. It felt that banks with significant exposure to the property

sector were most at risk. The Bank was concerned that if a series of small banks collapsed, that could shake confidence in the UK financial system.

Last autumn, when sterling withdrew from the European exchange rate mechanism and sterling fell, the Bank became convinced that the risk of a

MID

RULES preventing Britain's nies from taking each other over are to be reviewed by the government, it emerged yes-

There is growing concern that as broadcasting becomes an increasingly international business Britain's ITV compa-nies may simply be to small to compete on the international

The 1990 Broadcasting Act designated nine of the 14 regional companies as "large" and therefore unable to take each other over.

A number of broadcasters such as Central Independent Telezision and Carlton Communications have been lobbying the government to change the rules.

They have pointed out that while most ITV companies cannot take each other over or merge, all of them can in turn be taken over by European Community companies from

the beginning of next year. The National Heritage Secretary plans to call a meeting on the issue with all of the ITV

In particular, Mr Brooke wants to hear the economic case why there should be a relaxation of the rules to allow larger commercial television companies to emerge in the

PRIVATE

## BAe pays £57.6m to settle case over Rover sweetners

By Paul Betts,

BRITISH Aerospace (BAe) yesterday paid \$57.6m to the UK government to settle the long running case over the "state sweeteners" it received when it acquired the Rover car group in 1988.

But BAe said the net cost of the settlement to the company would be £42.2m because it expects to recover £15.4m in tax relief. The company was ordered in

March by the European Commission to pay back the money after the EC ruled that the benefits BAe received from the UK government constituted illegal

The issue was first raised back in 1990 by Sir Leon Brit-

tan, then EC competition commissioner, but became entangled in long procedural wran-gles before the European Court of Justice. The Commission finally

ordered the UK government two months ago to recover \$44.4m on the illegal payments, plus interest, from the aerospace group. Under the agreement reached between the govern-

ment and the company, however, BAe has paid £57.6m, made up of £11m for the actual aid it received and £46.6m in interest payments. The government had allowed BAe to defer for two years interest free payment for Rover.

By recovering the tax relief which would have been avail-able on the interest payments,

## VW seeks larger slice of market

THE Volkswagen group, Europe's largest carmaker, aims to increase its market share in the UK new car market by around 50 per cent during the next 5 years, Kevin Done writes.

Volkswagen acquired VAG (United Kingdom), the British distributor of Volkswagen and Audi vehicles from Lonrho, the UK international trading group, for £124m at the end of last year. Following the takeover the German carmaker is

seeking to expand substantially its presence in Britain. Together the VW and Audi makes captured around 14.7 per cent of west European new

car sales last year, but only 5.2 per cent in the UK. Mr Detlef Wittig, sales director for the VW brand worldwide and the recently appointed chairman of VAG (United Kingdom), said the company had set a target of

capturing 7.5 per cent of UK

new car sales by 1998.

In the drive for a significantly higher British sales vol-ume and market share the VW brand is entering into more head-on competition with the leading volume makes in the UK, Ford and Vauxhall.

It is being forced to modify its traditional premium pricing in the UK and to seek higher fleet and company car sales. The group is also planning to increase the separation of the retail sales of VW and Audi brands in the UK.

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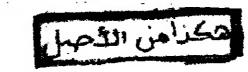
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The overriding foreign policy aim is to win sovereignty over the Falkland islands

#### FINANCIAL TIMES SURVEY

## ARGENTINA

Efforts are now being made to develop the impressive energy resources Page 5

Thursday May 27 1993

Argentina has found its way, combining democratic rule with radical privatisation of the economy. The challenge now is to make it work and for the Menem government to provide firm institutional foundations for political life. Stephen Fidler reports

## A turn for the better

TO THE visitor to Buenos Aires, today one of Latin America's most peaceful capitals, it seems scarcely credible that little more than a decade ago Argentina was under mili-

Its bellicose generals had brought the country to the brink of war with neighbouring Chile and into a disastrous conflict with Britain in the south Atlantic. The military had abducted, tortured and murdered thousands of Argentines under the pretext that Argentina's divided society demanded strong government.

It seems scarcely believable either that four years ago, as the government of President Carlos Menem took office, the country was in the middle of one of its most severe economic crises of the century. With inflation rising to 200 per cent a month, commerce ground to a halt and people took to the streets to protest against food shortages.

Today the military appears a spent force in Argentine politics. Instead of fighting with its neighbours, the government is planning a customs union with Brazil, Paraguay and Uruguay. The Clinton administration in the US has opened the prospect of Argentina's accession to the North American Free Trade

The economy is enjoying a stability not seen for many years, Annual consumer price

anced its budget, helped by a threefold rise in tax revenues between 1989 and 1992. The government is close to completing one of the most radical privatisation programmes ever seen, expected to culminate this year in the sale of the largest company in

inflation has fallen to single

digits, the government has bal-

cern YPF. Employment by the state and state-owned industry will have fallen from 290,000 at the end of 1989 to 41,000 at the end of 1993, according to economist Miguel Broda.

Argentina, the state oil con-

The economy has enjoyed two years growth of close to 9 per cent and industrial production is at record levels. Debate now rages between those who doubt the change can endure -who see growth driven by a consumer boom financed essentially by privatisation and those who think Argentina could be Latin America's new economic miracle.

The key to the debate is a law that has put the government into an economic straitjacket. Since April 1991, the Argentine convertibility plan has put the peso on a parity with the US dollar and allowed the central bank to issue currency only if backed by foreign exchange reserves. By limiting the government's ability to print money, the plan has brought down inflation rapidly.

The architect of this programme is Mr Domingo Cavallo, the economy minister, a Harvard-trained economist whose writings demonstrate an obsession with Argentina's economic decline in the 20th

Even some of Mr Cavallo's supporters - he is the most popular politician in the government, according to opinion polls - wonder how long the peso's parity with the dollar can be sustained. They point to a growing current account deficit as evidence that the policy is eroding the competitiveness of Argentine exports. Argentine consumer price inflation, while dropping, is still running well ahead of US inflation, making foreign goods cheap in Argentina but increasing the costs of exporters. The current account deficit which the high exchange rate has caused, they argue, makes Argentina dependent on highly volatile inflows of foreign capital. Mr Cavallo, however, points

out that capital has continued to flow into Argentina this year, allowing interest rates to fall. More important, he holds that it would be "madness" to devalue: the competitive edge it would give to exporters would be transitory as inflationary expectations, never far from the surface in modern Argentina, climbed rapidly.

A strong currency is also vital to restructure the private sector so that Argentine competitiveness can be enhanced. If it is to be successful, it will require a revolutionary change in the attitudes of business people who - due to inflation and the protectionist wall that used to surround the Argentine economy - were rarely forced to make tough deci-

For their part, foreign inves-tors have already shifted attitudes. Helped by the relief negotiated on foreign debt in an accord completed in April, Argentine borrowers have been re-admitted to the international financial markets. Foreign companies - from Europe and 'elsewhere, including, importantly, the US - have been actively participating in the privatisation of state utili-



However, it is too soon to say whether the private sector believes enough in Argentine stability to start investing in new productive capacity to stimulate exports, and in what sectors - apart from agriculture and energy - the country's comparative advantage

Despite these doubts, there appears to be a consensus that the general direction of economic strategy is more or less right, though only the brave would argue that this means the end of the deep conflicts that have marked Argentine politics in the 20th Century. Mr Naldo Brunelli, new head of the trade union confederation, CGT, says: "We think that the changes are irreversible." Mr

Cavallo has praised the two leading economists of the opposition Radical party as men who would run the economy very well. Argentina's new economic structure is being depicted increasingly as a project of the state, not of Menem and Cavallo. This should reduce the

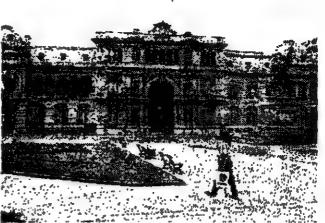
uncertainty surrounding the handover of government in 1995, although if Mr Menem has his way, he will succeed For this he will need a

reform of the constitution, but that will require a two-thirds majority in Congress and he can only get that in Congressional elections in October.

Partly because of this, economic policy has been more



Carlos Menem, who was elected president four years ago in the middle



expansive this year than many expected. For example, a large part of the proceeds of the YPF sale will go to clear arrears to pensioners. The YPF sale, it is widely said, has been brought forward so that the pensioners can be paid before the elec-

For his part, Mr Menem says he would like another term as president, but adds: "It's not an obsession." Indeed, he has laid less emphasis on his reelection in recent months, conscious perhaps that if he stresses the theme and fails to win the necessary support he could turn relative electoral success for the Peronists into a

perceived failure.

Despite the widespread credit he is given for stabilising the economy, there are some who doubt whether he is the man to deal with the next set of challenges likely to face the Argentine government the development of the institutions of state that remain after privatisation. To critics, he is a man more interested in the

rules of the game. Mr Luis Moreno Ocampo, a former federal prosecutor now in the private sector, says: tions, it doesn't mean there is democracy.
"Of the rights guaranteed

exercise of power than in the

under the constitution, we have just two: elections and freedom of opinion." This means that concepts important to democracy, such as respect

for the rule of law and the independence of the judiciary. are still lacking in Argentina. A lack of public confidence in the judicial system also feeds a public obsession with corruption in government. Much economic reform - the change in the exchange rate regime, privatisation, the strict financial limitations on the government - should reduce future opportunities for corrup-

11

Yet it still goes on. Past members of the presidential entourage stand accused of corruption. A free press has heightened awareness of an issue about which people feel increasing indignation because their taxes are financing it.

This is not the only priority. As in most countries, education is a central issue. Argentine labour is among the most expensive in Latin America. If Argentina is to be successful as an exporter, productivity needs to be improved through better education.

There is a danger, too, that the success of the economic reform will leave some sectors of the population behind, particularly in those outlying provinces whose governments have not followed the central government in economic

reform. Yet, compared with most of its neighbours, Argentina's problems should be relatively easy to tackle. High literacy and a reasonable income distribution mark it out from much of the rest of Latin America With its natural resources, it

should be a wealthy country. The economic programme has, by shackling the government, resolved a central paradox: why a deeply conservative population has been ruled for so long by licentious govern-

The key to this change is a single piece of legislation: the law which fixes the value of the peso against the US dollar. For some time to come, confidence at home and abroad in Argentina's economy will hang on the single thread of the convertibility law.

Things have turned dramatically for the better in Argentina but it is not out of the

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**KEY FACTS** 

**Stephen Fidler** reviews the economy

## **Breakneck pace**

tral bank from printing money

except when backed by foreign

currency inflows), says devalu-

ing the peso would be "mad-

ness". The competitive advan-

tages of doing so would

evaporate as inflationary

expectations, which are highly

the country during the first

the exchange rate on the com-

petitive position of Argentine

industry is being exaggerated.

Lower tariffs on imports have

helped to contain the cost of

industry inputs - wholesale

prices rose only 3.2 per cent

Mr Cavallo's mind is on

other things besides the

exchange rate. At the start of

the month his ministry issued

its plans for further reform and

economic projections until the

end of the current administra-

They project 43 per cent

growth in GDP for the six

years of the Menem term, by

the end of which inflation - as

measured by the mean of con-

sumer and wholesale prices -

will have fallen to less than 4

per cent and 1.6m new jobs will

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tion's term of office in 1995.

Furthermore, the effect of

four months of 1993.

blue-eyed boy of the Washington international financial institutions. Economic reform has been at breakneck pace and is delivering growth - nearly 9 per cent annually over the last two years. The government's fiscal house has been put in order: tax revenues have increased threefold since 1989 and the government is running a surplus helped in part by Latin America's most radical privatisation programme.

This has happened not under a government where opposition is repressed or muted by the political system, as in Chile during the 1980s and in Mexico. but in a relatively democratic context. Indeed, some people

sensitive to the exchange rate He argues that if foreign owners of capital are worried about Argentina's exchange rate, they are not showing it. Capital continued to flow into

Main Economic Indicators				
	Mexico	Argentine	Chite	
Inflation (Apr-Apr) (cpl)	10.7	11.7	12.0	
Growth 1992	2.6	9.0	10.4	
GDP 1992 (\$bn)	283.0	220.0	36.0	
Trade balance (\$bn)	-20,5	-2.8	8.D+	
Current account % GDP	-6.0	-3.2	-3.0	
Reserves end 92 (\$bn)1	19.2	11.0	9.7	
Public external debt (bn)	70.0	62.5	18.4	
Investment (% GDP)	20.7	16.7	21.3	
Domestic savings (% GDP)	13.8	15.2	19.6	
Fiscal balance (% GDP)2	+0.5	O	-0.5	
int rate (90-day depos)%	22.0	12.0	18.0	

inside and outside the country are beginning to talk of an On the face of it, the figures on the accompanying chart suggest Argentina is doing well even when compared with the region's other commonly-cited economic "success stories".

The main threat to the miracle, many people believe, is the lack of sustainability of the policy that has fixed the exchange rate to the dollar since April 1991. Argentine inflation is coming down rapidly - consumer prices rose 17.5 per cent in the year to December and 11.7 per cent in the year to April - but prices are still rising at a rate which puts Argentine industry under severe competitive pressure.

Evidence is said to be visible in a current account deficit which widened rapidly last year to just under 4 per cent of

increasing the economy's omy, Mr Cavallo says, has grown by 18 per cent in the dependency on capital inflows past two years and 670,000 jobs Mr Domingo Cavallo, the have been created. Inflation economy minister who tied the when Mr Menem took office peso to the dollar (and secured was 200 per cent a month. a law which prevented the cen-

His objectives for the future will lay "a strong emphasis on savings, investment and jobs\*. he said in an interview.

 Savings: Huge tax evasion used to mean the incentives for savings were ineffective. The government's fight against evasion of its value added tax has proved successful and 600,000 companies have been brought into the net. Now, the government plans to turn its attention to fighting evasion of income taxes, attempting to bring 2m people, including professionals and self-employed, into the income tax net and to ensure they pay social secu-rity. This would help raise the domestic savings rate to 20 per cent by 1995 from about 17 per cent now, reducing reliance on foreign savings. According to the government's projections, the dependence on external capital peaked last year and

when it will fall to zero. • Investment: The government has already provided help for buyers of capital goods, exempting them from a 10 per cent import tax on imports and provides domestic producers of capital goods with tax rebates on what they sell. Employment: There are

will decline steadily until 2000

plans to cut labour taxes. These cuts would deepen with increasing distance from Buenos Aires, to encourage companies to move into areas which have so far seen little economic growth. Incentives would be given to provincial govern-ments to follow central government in simplifying its tax structure. The government is also encouraging the state-owned Banco de la Nacion to provide cheaper credit for small businesses, farmers and fishermen to encourage

Mr Cavallo denies that what is taking shape is an industrial policy. He has no bureaucrat in his office working on these issues. "We still have no industrial policy that helps specific sectors. It's not that we think it's good or bad. It's because

restructuring in these areas.

Area		33.1 MANG
Head of state	······································	tina nego (A
Currency	400	14 44 TU OU 1
Average exchange rate		1 2 1=0.20 ,
ECONOMY	1991	1992
_	1001	
Total GDP (\$bn)	129.6	154.5
Real GDP growth (%)1	8.5	9.0
Components of GDP (%)		
Consumption	77.4	n.a.
Investment	8.2	ก.ล.
	22.6	n.a.
Exports	-8.2	n.a.
Imports	-0.2	
inflation (% pa)2	171.7	17.8
Share prices growth (% pa)1	350.1	-13.8
Reserves minus gold (\$m Dec)	5,615	0.0
Deposit rate (% pa)	60	8
Total external debt (\$bn)	63.7	85.0
Debt service ratio (%)*	48.1	n.a.
Current account balance (\$m)	-2.652	-8,547
Exports (\$m)	11,972	11,965
Imports (\$m)	7,400	13,649
Trade balance (\$m)	4,572	-1,684
Main trading pertners (%)*	Exports	imports
US	9.7	28.2
Japan	4.2	6.2
Germany.	8.7	9.3
Brazil	12.7	9.9
UK,	1.6	1.7
EC	32.0	28.8

n reste tigures (SM) estimates; 2 annual percenta increase in consumer prices; 3 Annual percenta, IFC share price index in dollar terms at Dec 31; 4 Total debt service as percentages.

government doesn't have

the ability to do this." The aim is to lay down a programme for the remaining years of the government and invite the opposition to come up with its own. The minister says he wants to increase transparency of economic policy and reduce uncertainty about a political transi-

in a recent magazine interview, Mr Cavallo not only underlined that the convertibility plan would be maintained without either him or Mr Menem. He further said that leading economists of the opposition Radical Party - such as Mr Adolfo Sturzenegger and Mr Ricardo Lopez Murphy would be capable of running the economy very well.

There are those who balieve Mr Cavailo is taking some risks this year, by pursuing a

policy which will avoid recession but heighten the risk of inflation. Mr Miguel Broda, who runs aneconomic analysis company, says Mr Cavallo has taken a number of measures over the last half year apparently intended to avoid a slowing of growth and raise both

demand and supply. Since September 1992 the government has increased social security payments, given value added tax rebates to exporters and reduced taxes on diesel, announced increased government expenditures, cut bank reserve requirements and given tax incentives to producers and buyers of capital goods. Furthermore, it has promised to use the proceeds from the sale of the state oil company to clear the government's debts to pensioners. This latter move will have a strong impact on consumption. Mr Brods predicts.

This could mean that growth, instead of slowing down to 2-3 per cent this year, will stay above 5 per cent, making realistic the government projection of 6.5 per cent. The gamble is on inflation: already running at full capac-ity. Industrial production has increased 34 per cent since the increased 34 per cent since the convertibility plan was introduced and is already running, says Mr Broda, at the highest level in Argentine history.

Mr Broda suggests that Mr Cavallo is seeking strong economic growth this year in

order to boost tax revenues. This will allow him to reduce

taxes on labour. He says Mr Cavallo is doing this because 1992 was a lost year for the government in terms of advancing labour and social security reforms, both of which are meant to improve flexibility of the labour market and lower the non-wage costs of hiring labour. Mr Cavallo

or hiring tabour. Mr Cavallo says both reforms will be in place by the end of the year. The social security and pen-sions reform is with the senate, having passed the house of deputies with some modifications. These allow, for example, for people to stay within a state system if they want. The fact that private pensions will not be compulsory has worried some of the reform's supporters who see it diluting the reforms's beneficial impact. Mr Cavallo says he is satisfied: "We wanted a perfect law. Now it's not 100 per cent but it's a very good law even with the modifications."

Meanwhile, although the labour law might not be introduced to Congress before the October congressional elec-tions, it would be in place by next year. While there is evidence that some Argentine industry is responding to low inflation and a strong exchange rate by restructuring, the question is whether it will be enough; rises in wages have been eroding some of the productivity gains. At his economic analysis company, Mr Broda wonders aloud whether Mr Cavallo is betting too high: he now says there is a 50 per cent chance that the current parity between the dollar and the peso will still be in place by the end of 1994. But if Mr Cavallo wins his bet, the gains could be dramatic.

The government is projecting 54 per cent growth between now and the end of the century. It is too early yet to talk of an Argentine economic miracle, though one cannot be ruled out.

At worst, it may settle into moderate inflation and moderate growth: no miracle, perhaps, but a huge improvement Privatisation signals radical shift in the economy

## Ownership switches

RIVATISATION has been the linchpin of the Argentine government's economic programme. It has allowed the government to put its budget to rights, brought sorely-needed investment to badly run-down utilities and provided a strong psychological signal of drastic change in Argentina's economic regime.

The numbers are impressive. According to figures cited by Mr Juan Carlos Sanchez Arnau, privatisation secretary in the economy ministry, the companies so far privatised by the government were receiving average annual transfers from the government of \$2.1bn between 1980 and 1989. Now, not only have these transfers ceased, but the privatised companies pay tax, which ran into hundreds of millions of dollars last year.

The privatisations so far have raised \$5.4bn in cash and \$12.5bn face value of government debt has been cancelled through debt equity swaps. A further \$1.5bn of liabilities were transferred from the government to the private sector. On top of that, there is a gathering movement towards privatisations by some provincial

The government, he says, has also been pleasantly sur-prised by the investment in privatised industry. "We are monitoring the companies and all started to make investments very quickly. This is one of the most important aspects of the results."

The two privatised telephone companies invested \$400m in 1991. \$1.2bn in 1992 and - judging from the rate of investment in the first quarter - are expected to make \$1.5bn in investments this year. Companies owning privatised roads invested \$188m in 1991 and \$120m last year. The new owners of the railways will be expected to invest \$200m-250m. a year, the gas companies at least \$200m a year. Even the much criticised sale of Aerolineas has brought \$188m in new investment, says Mr San-

transfer to the private sector was just in time. Indeed, the transfer of the Costaners power station in Buenos Aires in March 1992 to Chilean investors led by Endesa was on the day the last functioning generator stopped. Now all seven of the station's generators are

For some companies, the

While Endesa might not agree, some privatised compabe making a mint. But Mr Juan Masjoan, president of Telecom Argentina - a com- must now wait an average nine

pany jointly operated by France Telecom and Stet of Italy which made profits of \$150.3m after tax in its last financial year compared with \$55.2m a year earlier - argues the task the new owners have undertaken is far from easy.

"Everything has to changed by 180 degrees," he says. "From an organisational point of view, we took over a government office. It was highly unproductive - productivity was running at one-third of international levels."

There was little or no decentralisation or delegation of authority, minimal training of staff and where computers were being used they were

being used badly.
Technologically, the picture
was as just as bad: only 10 per cent of the company's infrastructure could be described as "modern", defined as anything less than 10 years old. Yet upgrading the technology may be the easy part. One third of the network was new technology by the end of September 1992. Mr Masjoan estimates that by the same time this

Mr Cavallo rescued the privatisation programme from disrepute when he took over the economic ministry in early 1991

year, more than 50 per cent of the network will be modern. "The most difficult thing to change in the company are the people. You need to develop a customer-oriented service and decentralise without losing

Telecom's 16,700 employees (down from 21,205 at the time of privatisation) now work in 19 operating units. One department is weeding out corruption in a country where a bribe until recently was necessary to secure a phone line or to get one repaired. Another foreign operator,

British Gas, took over the gas distribution system in Buenos Aires and brought over some 35 managers to help get it into shape. It has already reduced the number of employees from 2,000 to 1,300. Senior managers say that in some respects they have been pleasantly surprised. Some aspects of the network were in better shape than they had expected.

The experience of the users of privatised industries has been varied. Travellers have complained of a deterioration of service on the state airline, Arnau says this is now improving. New customers of Telecom

months (six in Buenos Aires) for a new line, compared with three years before. Repairs are being carried out more quickly and, as mechanical exchanges. are phased out, the system's capacity is being expanded....

However, telephone calls are still expensive, particularly long distance and international calls. Long distance makes up 7-8 per cent of Telecom's traffic but accounts for 70 per cent of

These high rates are encouraging unofficial competition for international calls such as cheap call-back services from the US that are eating into the temporary monopolies granted the new owners when they took over the companies.

The interests of consum are supposed to be looked after by independent regulatory agencies. Since utilities were previously state owned, there is no experience of such regulatory bodies and there is a widesoread view that telephone regulation is not working as it

The effectiveness of the more recently created water, electricity and gas regulatory bod-

ies is yet to be tested.

Mr Cavallo rescued the privatisation programme from disrepute when he took over the economy ministry in early 1991, halting and refashioning it to increase its transparency. This has quietened some of the opposition to the programme, although on occasions some losing bidders have privately intimated dissatisfaction with the bidding process. But the bidding is only part of the

story.

The importance of effective regulation has become paramount: a perception that newly-privatised utilities are using their monoply positions to exploit the public could damage the government and its economic programme severely.

Another issue has been the lack of sizeable Argentine partners for the foreign operators in privatisations. A predictable handful of Argentine companies appear in just about every privatisation - Perez Compane. Techint and Comercial del Rio de la Plata - because only they have had the size to get sufficient finance.

"There are potential problems emerging in these huge concentrations of wealth and sconomic power in the hands banker from the British merchant bank, Midland Montagu. That, and the development of effective anti-trust legislation, future government, however.

Stephen Fldier

PROFILE: Yacimientos Petroliferos Fiscales

## State oil goes private

SEVENTY-ONE years after it ised that control will pass to became the first government oil company in the world, Yaci-mientos Petroliferos Fiscales is set to become the first state oil company in Latin America to

Through an enormous offering of shares nationally and internationally, scheduled for early July, YPF will pass into private hands. The sale of the state oil company will cap the Argentine privatisation programme, rendering it almost complete except for the sales of minority stakes in some of the country's already-privatised companies.

The sale will underline the extent of the transformation in

the economic role of the state tion took office in July 1989. YPF has already been radically restructured. Its workforce of 52,000 in 1990 has been reduced to fewer than 12,000, non-core assets are being sold off as are oil and gas wells in order to

dilute its monopoly position.

Yet, the sale of Argentina's largest company raises many political and other questions. As in all privatisations, the government risks accusations that it is selling off the family silver at too low a price. Yet if the government tries to sell at too high a price, there are risks that the sale might fail or that small shareholders are left with shares that fall sharply in value soon afterwards. The Argentine stock market has yet fully to digest the effect of the price collapse of the shares of Telecom of Argentina after a public offering in March 1992.

The government has decided that, unlike in many previous privatisations, it will not sell a controlling stake in YPF to foreign operating companies. This immediately raises the question of who will control the company after the sale of its shares. Even though it will still be the largest stakeholder the state will retain at least 20 per cent of the shares after the sale with a further 5-10 per cent reserved for the workforce

the government has prom-

the private sector. The Argenthe government seems to have had in mind a British-style pri-vatisation in which the man-agement installed by the state remains in place. However, it is possible that the new shareholders will prefer management led by someone other than Mr Jose Estenssoro, despite the widespread credit he is given for turning round the former loss-making com-

It will also want to avoid making the oil company the subject of a bid by speculators, either foreign or domestic, whose aim would be to split up the company in order to make short-term gains. Maximum stakes are, thus, likely to be limited, although if the maximum is set too low it could put off some potential buyers. Mr Russell Herbert, managing director of British Gas's Global Gas division, says his company is interested in a stake in YPF but points out that it can make no decisions before it knows

While this may be the govgle privatisation, there are some in Buenos Aires who

believe that it has increased the risk of failure by going for an earlier-than-anticipated pri-The timetable appears to have been guided by political

rather than market considerations, since a third quarter sale was previously considered likely. Congressional elections are due in October and the goverament has promised to use the proceeds from YPF to pay off arrears owed to pensioners payments in the past.

A sale in early July means a frantic timetable for flotation's global co-ordinators, First Boston and Merrill Lynch. Global investment institutions will over the coming few months also have to digest other large issues including the sale by the UK government of its remaining stake in British Telecom.

Continued on page 3

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HIS IS a political year in Argentina Mid-term congressional elections are due in October. Constitutional reform and President Carlos Menem's re-election bid overshadow the political scene.

But for the first time in many years, political uncertainties have not led to economic uncertainty. It is to Mr Menem's credit that he has not allowed his political priorities to sweep him too far from the path of economic orthodoxy.

He has agreed to potentially unpopular and vote-losing measures, such as spending cuts or closing down loss-making rail services. Mr Rosendo Fraga, a political commentator, explains that "Menem's most important electoral and politi-

cal asset is the economy". Opinion polls show steady support for government economic policy, with a 41 per cent approval rating. And the rating of Mr Domingo Cavallo, the economy minister, is 50 per cent - significantly higher than Mr Menem's 38 per cent. The

message is that voters will vote for economic stability. The free market consensus that emerged from the chaos of hyperinflation in 1990 shows

no signs of weakening. And it

is the government alone that

■ INANCIAL market

reform must rank among

frustrations. Despite Argen-

tina's dramatic economic

recovery, officials complain

that few private banks have

have responded to deregulation

The equity market has failed to

recover from a speculative

hanging over financial markets

is the shape of the future pen-

sion system, which the govern-

ment hopes will become a cor-

nerstone of a modern capital

market. But pension reform

has run into heavy opposition

Politicians have already

rejected the plan of economy

minister Domingo Cavallo to

force all employees to pay 11

per cent of their income into

individual retirement savings

accounts, which would be administered by fund manag-

The principal uncertainty

binge last year.

in Congress.

The Republican Property

by financing a consumer boom

the government's great

stands to benefit politically from this. Even Mr Naldo Brucandidate in the 1995 elections nelli, general secretary of the CGT labour confederation that has further undermined Mr enem's authority. This has is fighting a rearguard action against liberalisation, says: made the presidential succession an unavoidable issue, We think the changes are irreeven though Mr Menem's term

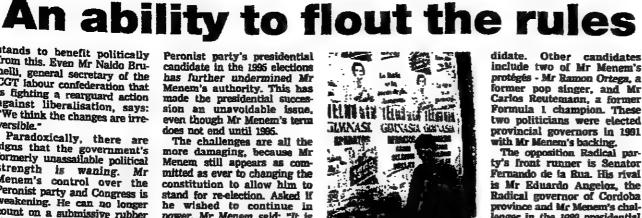
does not end until 1995. The challenges are all the more damaging, because Mr Menem still appears as com-mitted as ever to changing the constitution to allow him to stand for re-election. Asked if he wished to continue in power, Mr Menem said: "It is hard to answer this. General Roca, [elected president in 1880] when asked what he wanted to be after being presi-

dent, said 'to be president again.' And that is what my Senator Jose Octavio Bordon, a former governor of Mendoza province in the west, is the first Peronist to openly toss his hat into the ring. Sen Bor-

don promises "a more pro-

found transformation of the

state: more efficient public



President Meners is bidding for

spending, more decentralisation, more public participation, re efficient judiciary". Mr Eduardo Duhalde, Mr. Menem's former vice president until he was elected governor of Buenos Aires province in

1991, is another strong - but still undeclared - Peronist can-

include two of Mr Menem's protégés - Mr Ramon Ortega, a former pop singer, and Mr Carlos Reutemann, a former Formula 1 champion, These two politicians were elected provincial governors in 1991

with Mr Menem's backing. The opposition Radical party's front runner is Senator Pernando de la Rua. His rival is Mr Eduardo Angeloz, the dical governor of Cordoba province and Mr Menem's challenger in the 1989 presidential election. Both men stress that they too will maintain Mr

Menem's economic policies. Like Senator Bordon, the Radical candidates say they will rebuild Argentina's institutions like the judiciary and Congress, and place a greater emphasis on social and educational policy. They are

responding to a shift in voters' priorities. Mr Luis Moreno Ocampo, an influential former tederal pros ecutor, points out that Mr

Marcelo Podesta, Chase's

Buenos Aires managing direc-

tor, says: "We did not want to

invest in systems to get up to

the scale the [retail] market

required. It is not a priority investment for the bank."

Instead, Chase is concentrating

on sophisticated financial prod-

ucts and project finance for

large clients. The trouble is

that with so many banks

thinking the same way, compe-

tition in the wholesale market

Many retail and wholesale

is flerce.

Menem's great virtue as an ability to flout rules. This

corporate state. But this ability is also his great shortcoming; he has not reconstructed the state's ability to administer justice, provide decent education and health services or establish an efficient and honest civil ser-

enabled him to break up the

However, Mr Menem has made some progress. He has introduced oral trials, abolishing traditional written trials which were both slow and vulnerable to corruption. He has also proposed long overdue reforms to the shadowy funding of political campaigns and has even suggested regular, perhaps annual, referends on

principal issues. Corruption remains a top political issue. Although deregulation and privatisation have bribery, businessmen and ordinary people still complain about corruption. The government has been rocked by 20 serious cases of corruption since taking office in July 1989,

vet not one has been satisfactorily investigated.

John Barham

banks have taken an increas ingly active role in privatisations, Some, such as Banco Rio de la Plata - the country's biggest bank - have taken direct stakes in privatised companies Others have backed investors in privatisations, underwritten privatisation share flotations, or structured financing for privatised companies' invest

Mr Fernandez wants banks to adopt greater securitisation of both their assets and liabili ties, which would reduce institutions' vulnerability to mismatching or sudden shifts in market conditions. Foreign bankers also expect the market sophisticated derivative products, such as bond- and equitylinked swaps and options.

The Falkland Islands

## Diplomatic talks go on

ARCIENTINA is obsessed with the Palkland Islands. Eleven years after its defeat in the 74day conflict with Britain, the country's overriding foreign policy aim is winning sover eignty over the (slands. In every important speech,

President Carlos Mettern makes a ritual reference to Argen-tina's sovereignty over the Falklands. He claims his policy of rapprochement - rather than confrontation - with Britain will enable Argentina to "recover" sovereignty over

the islands by 2000. Mr Menem said: "We will continue talking. In the world of diplomacy one needs great patience. There is no possibility of taking this conflict over the Falklands to a situation

similar to 1982."

His aim is to draw the UK into as close a relationship as possible. Stronger trade and investment links with Argentina would gradually reduce the importance of the Falklands to Britain, Eventually, London will have sufficient confidence in Argentina to consider transferring sovereignty. Several British companies already operate privatised utilities in Argentina. But instead of receding, the Falklands

question remains an open sore

in bilateral relations. Argentina continually presses for greater involvement in developing the natural resources. in 1991 the UK agreed to co-operate to conserve fisheries. Last year Argentina began to issue fishing licences, muscling in on the main source of revenue. Ordinary Argentines are frustrated that Mr Menem's

policy has still not led to any talks over the crucial issue of John Barham | sovereignty. London has

remained unyielding in its insistence that co-operation with Argentina does not imply any recognition of its claim to the islands. The UK foreign office says this policy will change only if and when the islands' fewer than 2,000 inhab-

itants agree to a change in

their status.

Last month, Argentina suffered another diplomatic slap in the face when Britain announced it would extend territorial waters to 200 miles habited South Georgia and South Sandwich island groups. which Argentina also claims.

Oil is emerging as another source of friction. The Falklands are believed to have big oil and gas deposits and Argentina wants to tie Britain into a joint oil regime. London has ignored Argentina's argu-ments, and last year licensed two companies to carry out seismic exploration in two blocks around the islands. Britain refuses to discuss of co-operation until studies confirm the region does have hydrocarbon reserves in commercial quantities.

There is scant chance of a shift in the islanders' virulently anti-Argentine attitudes. Memories of Argentina's threemonth military occupation remain fresh

And Britain has still not lifted its arms embargo on Argentina. London has also successfully persuaded Washington not to sell two squad-rons of ageing Skyhawk fighter bombers to Argentina. However, talks are planned later this year to resume training courses for Argentine officers at British military academies.

John Bartiam

Financial market reform is one of the government's frustrations

Political priorities have not interfered with economic orthodoxy

## Uncertainty over pensions

made sufficient progress in incomes, irrespective of the And to the government's risk of a devaluation. undisguised concern, bankers

Paradoxically, there are

signs that the government's formerly unassailable political

strength is waning. Mr

Menem's control over the

Peronist party and Congress is

weakening. He can no longer count on a submissive rubber

stamp to keep laws unchanged.

Congress has substantially

altered laws privatising the oil company YPF and introducing

The Peronists, Congress and

even the government are even

more deeply split over the con-troversial question of labour

reform. Reforming the labour

market is potentially explosive

because it attacks the very ori-

The emergence of challeng-

ers for nomination as the

gins of Peronism.

a private pension system.

Question marks must also remain over the wider issue of how much and how quickly the pension system can boost Argentina's savings rate and reduce its reliance on imported capital. Mr Roque Fernandez. central bank president, commented that pension funds will not bring a phenomenal change. I hope it comes, but I think it will be gradual."

Meanwhile, the equity market, which will one of the principal beneficiaries of a reformed pension system, is in the doldrums. Share prices have been unable to recover from a disastrous price slide that began last June. The Merval market index now stands at less than half its May 1992

The decline has continued this year, spurred by a huge overhang of overpriced shares Instead, Congress has made contribution to private pension schemes voluntary. It has also still held by investors. Share prices dipped sharply in April ordered the government-owned and May in anticipation of Banco de la Nacion Argentina (BNA) to provide contributors July's planned privatisation of to its pension funds with a Argentina's largest company, the national oil corporation minimum dollar-based guaran-Mr Cavallo maintains that dent Menem's re-election bid these are only superficial has also dampened enthusiasm. However, Argentine stocks are still not cheap, with changes, which do not affect the heart of pension reform. He is confident that most people price/earnings ratios averaging

about 18. will prefer private pension Market capitalisation of funds, which he believes will US\$18bn is equivalent to only 8 offer higher returns and will be per cent of GDP, a low ratio seen as less risky than the BNA's government-guaranteed even by regional standards. Daily turnover rarely exceeds \$30m, and the market contin-Bankers nevertheless worry nes to be gripped by a strong that BNA's guaranteed return

This announcement appears as a matter of record only

The issue has been fully subscribed and placed

speculative mentality. could not only hamper private investors are deterred by a sector competition but would narrow market in which liquidity is a problem in all but a few also fail to lighten the burden of the government's existing pension liabilities. They also actively traded stocks. Three companies - two privatised wonder how the government telephone stocks and the Perez can guarantee millions of BNA Compane holding company clients guaranteed dollar

Instead of listing, companies

are actually departing the market, with only 164 companies now quoted against 171 last year. Thirty years ago, the Buenos Aires market had more than 600 quoted companies. The government's Comision Nacional de Valores checked capital markets regulator has approved more than 30 companies to list, but only a few have come to the market. Low international interest

rates make bond issues more attractive for companies. Salomon Brothers says that last

system has changed beyond recognition from the chaos and speculative frenzy of the 1980s

The country's banking

year more than 20 Argentine companies issued \$1.97bn in bonds, notes and commercial

greatest frustration is its inability to force banks to lower interest rates and improve terms for industrial borrowers, particularly for approach the local and international capital markets. Argentina's hanking system

has changed beyond recognition from the chaos and speculative frenzy of the 1980s. in June 1989, as hyperinflation raged, central bank liquid reserves were a mere \$112m. in April, the second anniversary of Argentina's celebrated convertibility law, the central bank's liquid reserves exceeded \$10bn.

As a result of the confidence

ally and maturities have been stretched out. Last month, deposits - less than half of them in dollars - stood at \$29.3bn, against \$18bn a year earlier. As a result, lending rose to \$41.38hn, against \$24.4bn in April 1992.

Banks are immensely profitable. Spreads at about 2-3 percentage points remain high - although they have fallen sharply - and private banks have cut costs aggressively and boosted lending and feenased income. For instance, Banco Frances

locally owned commercial bank and one of Argentina's top five banks, saw its net assets grow 137 per cent to \$1.08bn last year, against 378m prior to currency convertibility. Net income in the year to June 1993 is forecast at \$47.6m. 37 per cent more than

Banks are less interested in lending to companies, especially risky small and mediumsized ones, instead, most of the profit growth is coming from

Mr Nicholas Grose Hodge chief manager of Lloyds Bank in Argentina, says "This continues to be a pretty good year ption — that bad debts and credit risk are getting much worse." Under an admittedly broad central bank definition. problem loans stand at 4 to 6 per cent of the private banking system's total loans.

The government is trying use the weight of BNA, which is also the country's bigges financial institution, to drive interest rates down, interest rates vary from a real negative monthly rate of 0.5 per cent on blue chip corporate loans to a stinging real 5 to 6 per cent per onth for riskier borrowers. It has announced that RNA

will lend \$4.5bn at below mar panies and farmers. But bankers say BNA's efforts are unlikely to have the desired effect, simply because they have little intention of compet ing in the small company and farm lending sectors.

Neither are central bank cap tal adequacy regulations mak ing much difference. Central bank regulations require banks to set aside more capital. The government believed this would force banks to lower rates. But banks, whose gear-ing, at about 8 times capital, is low by international standards, have been happy to use their capital as profitally as possi-

Bankers say that the real culprits are inefficient regional banks, most of them owned by provincial governments, which distort interest rates through-out the system. Their funding costs are high, a reflection of the poor quality of their portfo-lios. Their operating costs are also higher, because few government-owned banks have cut costs sufficiently. The government rejects these claims, stat government banks alike main highly inefficient.

ecoming increasingly difficult for smaller and medium sized banks, a majority of which flourished in the bad old days of heavy inflation and high interest rates. Argentina still has more than 160 banks of varying shapes and sizes. Many will probably merge, seek out niches in the investment bank market or simply Some foreign banks with

Living with stability is

small branch networks have already decided to wind up retail operations. Chase Man

#### Continued from page 2

The company was scheduled to file full details of the sale, including two years of audited results of YPF, with the US Securities and Exchange Com-

The assets of the company

State oil goes private have been put loosely at \$8bn-

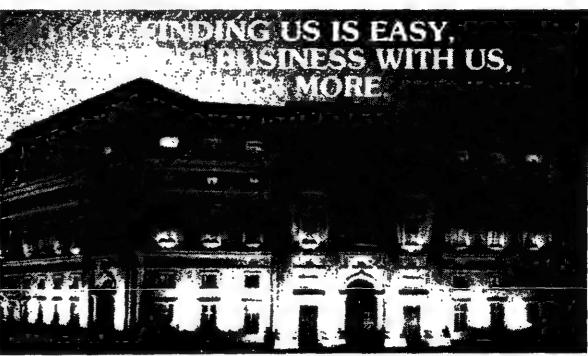
8bn. A banker close to the transaction said that although the eventual outcome would building" - under which

underwriters determine demand for the shares at a range of prices - it was thought likely that perhaps half the shares offered would go to the United States market.

20 per cent to the Argentine market and 30 per cent to the rest of the world, mainly to

The flotation of Yacimientos Petroliferous Fucales on to the private market may raise \$3bn.

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The Mercado Nacional, where 70 per cent of beef production is sold

ARGENTINA'S PAMPAS qualify as one of the world's richest farmlands, where farmers using no artificial fertilisers or agrochemicals still have yields comparable to, or better than, producers in other main farming nations.

Yet, for all their natural advantages, Argentina's farmers are being squeezed by rising costs, falling commodity prices and a new domestic economic scene that is forcing everybody - farmers, bankers, business people - to adjust sharply.

The problem is that most farmers are already financially overstretched or are unable to find sufficient financing at the right terms to modernise their operations. By one widely accepted estimate, about 150,000-200,000 mainly small and medium-sized farms are under great financial pressure and a large number of them are facing bankruptcy.

However, the threat of shakeout on the pampas is more a social than an economic problem. Nobody expects Argentina's grain and oilser I exports to suffer. On the contrary, they are likely to benefit from the market's unrelenting pressure to boost productivity.

Mr Hugo Krajnc, a manager at Cargill's Buenos Aires office, adds that modernisation. means not just adopting better new tractors, but applying Farmers are already financially stretched, writes John Barham

## Shake-out on the pampas

modern financial and management methods. Few farmers use commodity markets to hedge their prices, and too many plan their crops based on last year's market conditions. rather than looking ahead to probable future market condi-

tions. Mr Krainc says. Nobody likes the disruption and pain that shakeouts bring. Farmers have reacted with protests, although none of them on the scale of French farmers' demonstrations. However, countless one day strikes in which farmers suspend deliveries to market, close roads and hold town meetings have done little to soften the government's heart. Until recently, that is. In

May, the government announced that farmers will be able to import tractors, trucks and agricultural machinery duty-free. It has also instructed the state-owned Banco de la Nacion Argentina (BNA) to lend farmers and small businesses US\$4.5bn this year at below market interest rates. Farmers still complain that BNA's terms are inadequate.

Although BNA's rates are

lower than those of other

banks, they are still a stiff

16-24 per cent a year in real

Argentina's farmers own about 200,000 tractors, but only 80,000 of them are less than 15 years old. Replacing the most obsolete tractors would cost about \$3.7bn. yet holding on toobsolete machinery is also very expensive. More than \$500m a year - a sum roughly equivalent to Argentina's annual wheat exports - are

in improvement prices in the near future.

In fact, prices this year have continued falling for most crops. Wheat prices are now 10 per cent lower than a year ago; corn prices are 5 per cent lower, soyabeans have recovered very slightly.

Reductions in local costs have done little to compensate for the international price colreckoned to be lost every year lapse. The government has

No amount of special pleading can change distortions in the world grain market caused by the US-EC subsidies war

due to waste caused by old But no amount of special

pleading by farmers or government intervention can change distortions in the world grain market caused by the US-EC subsidies war. According to the Argentine Rural Society (SRA), which groups together the country's big farmers, international prices for Argentina's main export crops - wheat, maize and soyabeans - are shout 30-40 per cent below levels of the mid-1980s, when the subsidies war first broke out.

lowered taxes and utility charges and scrapped duties on imported farm machinery, but a tractor still costs the equivalent of 256 tonnes of wheat. slightly more than a year ago. The same applies for other key inputs such as fuel and fertiliser. Financial charges, and other inputs, such as labour,

heavy burden. The picture is not uniformly bleak. Although the SRA savs wheat farmers are struggling with negative net margins of 2 per cent, soyabean farmers

electricity and taxes remain a

There is little prospect of any now have a 22 per cent positive net margin. Although experts say that farmers are cutting costs, there is still room for

further cuts. It is hardly surprising, then, that wheat output last year fell 11 per cent to 9.9m tonnes and is expected to fall another 6 per cent this year. Soyabean production rose 14 per cent to 11.3m tonnes in 1992, but is expected to fall slightly this

Signs are already emerging that these pressures are leading to consolidation of land holdings, especially in the key farming region of Buenos

Many farms on the pampas are absurdly small by Argentine standards, often measuring no more than a few hundred hectares. Coninagro, a farm co-operative body, reckons that as many as 85 per cent of the farms in Buenos Aires province, which covers most of the pampas, are too small to pay their way. It says a wheatproducing farm must cover at least 625 hectares.

Most of the attention is focused on the plight of the pampas' farmers, but farmers in distant provinces face even-

more dramatic conditions. Sheep farmers in Patagonia. sugarcane and tobacco growers in the northwest and cotton producers in the north all face far greater problems. However, their impact on the economy and political clout are relatively small.

John

The focus is beginning to shift to the highly inefficient retail and distribution network. The press has discovered for instance, that middlemen boost retail prices by three to

four times producer prices. The effects of the government's privatisation programme is also being felt. Privatised railways are lowering transport costs butprivatised energy utilities no longer sell underpriced gas and electric-

Farmers must become far more efficient in producing traditional bulk commodity crops. Few analysts see much future in high margin produce such as exotic fruit and vegetables. Chile's success in developing markets for these goods in North American, Japan and Western Europe is often held up as an example for Argen-

Although Argentina could undoubtedly improve the quality and presentation of its existing fruit and vegetables they are hardly likely to replace its staple grain exports. After all, the Pampas are almost designer-made grain and cattle-grazing land.

RCENTINA ren a trade deficit last year for the first time Asince 1981, the year before the start of Latin America's debt crisis. Even using the government's own - perhaps optimistic - estimates, the country will be running a deficit in trade of goods and services until 1998 and will not again achieve a surplus on the current account of the balance of payments

Forecasts by both government the current account deficit should fall slightly this year. If that happens it will be to the relief of those in the international financial markets worried less by the absolute size of the deficit than by its rate of

The government's own estimates of the current account deficit are usually significantly lower than private sector estimates because of differences in the treatment of earnings on assets held by Argentines outside the country. Private sector estimates usually put the 1992 deficit between \$8bn and \$8.7bn - less than 4 per cent of gross domestic product - against under \$3bn in 1991. The government's own figure suggest a shortfall of \$6.2bn.

Despite an exchange rate fixed against the dollar since April 1991, exports have remained steady at just over \$12bn. On the other hand, imports have surged - encouraged by the strong exchange rate and Argentina's unilateral lowering of tariffs that have kept the prices of imports down. After a decade of recession too, there was significant pent-up demand, and imports more

A breakdown of the import figures suggests sharp growth not only in consumer goods, but also in intermediate goods to provide raw materials for booming sectors of Argentine industry and in capital goods. According to Ministry of Economy figures, imports of capital goods rose to \$5.8bn last year, 38 per cent of all imports, compared with \$1.3bn and 32 per cent in 1990.

of the economy. Paper, petrochemi-cals and textiles and some parts of the steel and farming industry have been hit hard by the opening of the economy to international competi-From the Argentine perspective,

one of the villains of the piece has been neighbouring Brazil. than trebled in three years from \$4.1bn in 1990 to \$15.1bn in 1992. Although imports from the US jumped to \$3bn last year from \$1.1bn in 1990, Argentines are more concerned about the flood of Brazilian goods into the country. Imports from Brazil last year totalled about \$3.3bn compared with \$718m in 1990. The problem is seen in part as a

consequence of Brazil's recession. In a bid to keep up production levels, Brazilian industry is pushing If that is encouraging, there is no hiding the pain being caused by aggressively priced goods into government policy in some sectors

Deficit through the decade

ing of its nominal exchange rate to Brazil's industries are pushing aggressively priced goods into

Stephen Fidler checks the country's current account

the two governments pursuing dia-

policies. While Brazil is keeping its

exchange rate highly competitive

to keep exports up, Argentina's fix-

etrically opposed exchange rate

the dollar makes for a high real exchange rate.

Argentina from next door

In an attempt to slow the growth in imports Argentina raised last October its so-called statistics tax on imports from 3 to 10 per cent. The move took place in the absence of a developed system of antidamping regulations but was

viewed as protectionist and proba-But it is also a consequence of bly against the rules of the General Agreement on Tariffs and Trade. The tax was subsequently lifted

on about 60 products imported

from Paraguay, Argentina's part-ner along with Brazil and Uruguay in the proposed Mercosur common market. And on May I it was removed from imports of capital goods. (Capital goods manufacturers were also given a 15 per cent rebate on their sales.)

The problem of import surges may be ameliorated if Brazil, as most forecasts suggest, resumes growth this year. Nonetheless, Brazilian economic instability seems set to remain of concern to the Argentine government, Argentine officials privately do not see much economic progress in Brazil until after a new administration takes

office in January 1995. At the start of that mouth Mercosur's internal tariffs will have failen to zero and a common external tariff is schednled to be in place. Mr Guido di Tella, Argentina's

foreign minister, says it is now clear that the common external tariff will not apply to all goods, but instead to between 70 and 80 per cent of imports. This is because Brazil has shown itself unwilling to lower its higher tariffs on computers and capital equipment imports to the likely common tariff level of a maximum 20 per cent.

There is a problem but not a tragic one. It is anyway to our advantage: they will be less competitive because their industry will have to buy more expensive computers and capital equipment," says Mr di Tella.

It is early days to talk of expanding Mercosur although Bolivia itself a member of the Andean Pact trade grouping - has expressed an interest. Chile is thought to be awaiting, first, some stability in the Brazilian economy and, second, the certainty that the next govern-

ment in Argentina remains faithful to the cause of regional integration. The other big trade integration issue for Argentina is the North American Free Trade Agreement, awaiting ratification this year by the legislatures of Mexico, Canada and the US. Clinton administration officials have spoken of extending the pact to Chile, Venezuela and Argentina. Yet Argentina is committed to talk to the US with its Mercosur partners; and Brazil is likely to remain a restraining influence on the extension of Mercosur for some time to come. The question may therefore arise of where Argentina sees its priorities. That, however, is a question for the future, if it is a question at all.

"The US proposal to incorporate Chile, Venezuela and Argentina into a free trade zone is one thing and Mercosur another," said President Carlos Menem. "Nonetheless. to the extent that we advance in the process of integration, it is possible that in the not too distant future it will be possible to incorporate all four countries of Mercosur into a free trade zone." - ... ---



Francisco Macri Is one of the most important businessmen in Argentina This year, in total, the firms affiliated to his organisation will have a turnover of around 4 billion dollars. Their main areas of activity include the automotive industry, cellular telephor and urban ecology, and their most important Industrial partners are Fiat Peugeot, Bell South, Motorola and Waste

Four years back, as the Berlin wall was tumbling down and communism in Europe was collapsing, many people assumed that the countries emerging from the socialist régime would rapidly become the focus of international attention in attracting investment and as an area of business growth. It is apparent today that those prognostications were somewhat unrealistic while, contrary to all expectations, Latin America has turned out to be a region with very good prospects in this respect. There are even those who, by analogy with the so-called "Asian Tigers", now talk of the emergence of the "Latin American panthers", including

The key that some people are starting to discover is that, despite having been passed over for many years, having suffered the calamities of no democracy, of inflation and violence, and having endured economic isolation and State-dictated ideologies, Argentina has managed to keep alive a capitalist structure and - in contrast with the former communist states - a managerial class capable of surviving the bad times and making preparations for renewal and development.

It it not easy to understand the changes that are being staged. I remember that in 1990 a distinguished American banker with whom I was having dinner described our country by quoting the famous song from the opera 'Evita': "Don't cry for me. Argentina". I took on the personal task of explaining to him that, at this stage, Argentina was beginning to move beyond the time for tears.

I think it is important to be fully aware of the revolution that is taking place in our society as a result of State reform, the abandonment of state control, privatisation, the deregulation of markets, the reassessment of the concept of the company, economic integration and an opening up to the world.

This is not merely a matter of ideas but real facts which in many ways are concrete, irreversible stages. The battle was for stability, privatisation, the opening up of the economy and regional integration. If we have supported this process, it is because we are convinced that this is how:

the country will become more efficient.

## ARGENTINA RELAUNCHED by Francisco Macri

- · more social forces will be released resources will be better allocated.
- · The foundations of a better quality of life

for all will be laid. in many respects, the results speak eloquently of the successes achieved.

Economic growth in 1992 was 8%. In 1991 it had been 9%. The forecast for 1993 is 6%. The driving force behind this growth is private activity and within private activity there are areas of particular interest. The achievements of the automotive industry have been absolutely miraculous, from a production level of 80,000 units in 1990 to something over 320,000 units in 1993, with targets of 500,000 units in 1995 or 1996.

From famine to feast in five years.

culture and society.

What is more, it is now 26 months since industry last increased its prices. This is reflected in the general indices. Combined price inflation in Argentina in '92 was slightly over 10% and will probably be below 9% in 1993. These are the results extrapolated from the first five months of the year, and the trend is continuing downward. The objectives of government and society as a whole for next year are all aimed at achieving inflation below 51%, in line with the figures for the most advanced economies. These facts stand in contrast with the negative results suffered by our country in the previous decade.

With regard to foreign trade: in three years Argentina's trade with the United States has multiplied four-fold and exchange with Brazil has grown three-fold. As for Chile and Argentina, at the same time as business in developing, they are making reciprocal investment of more that 1000 million dollars each year.

The process of transformation in Argentina is made up of three parallel reforms, differing in intensity over time. One is macro-economic; another lies in the field of society as a whole: firms, consumers and workers: and the last concerns the new functions of the State and its ability to perform them.

The reform with the greatest intensity at the beginning of this process was the macro-economic one, which consisted basically of a return to predictability and in some cases solving such serious conditions as a shortage of currency.

At the first stage, the crux of all the transformations lay in the macro-economic plane, and one crucial aspect was the role that would be played by government, the civil service and politicians in channelling the essential changes.

the macro-economic setting to transformation at the micro-economic level of

We are now facing fresh challenges, the emphasis is currently shifting from

The processes of opening up and privatisation are giving impetus to these essential changes. Foreign investment and links between domestic companies and firms in more highly developed countries are producing a positive impact with regard to advanced technology and modern management, confirming once again the efficiency of linking enterprises with local companies.

Through privatisation, huge amounts of international capital are being direct-

ed to the nerve centres of the Argentinian economy. Telecommunications, gas, oil, electricity and air transport are all demonstrating the effects of a strong presence of international capital.

What we are seeing here is productive capital which is looking for the best environment in which to develop its activity profitably. It is not roving capital speculation on short-term gain.

Just as, four years back, we were able to say that the process of macro-economic realignment was under way, we can say today that the modernisation of the economy and society itself has now started and is expanding to touch small and medium-sized firms. The entrepreneurial spirit of our country is not concentrated in a small number of large companies, but is spread out over a vast area of businesses of differing sizes and specialities. There is a general industrial culture which, in the light of the new conditions, is in the process of incorporating technology, management, and criteria of total quality, efficiency and competitive-

One important aspect of the new tasks set by transformation is the reconstruction of the State and its functions, in the context of a society that has been transformed by privatisation. Whereas, earlier, the emphasis was on minimising the monopolistic functions that had been accumulated by the State and eliminating the arbitrary regulations that were asphyxiating productive activity, nowadays the aim is to restore the State's legitimate functions and its capacity to establish the regulations essential to society's functioning, and ensure that they are followed. It is particularly important to strengthen the rôle of the courts, in order to guarantee legal security.

Another of the major challenges we are facing in the business sector is that of acting in parallel with the State, in the task of developing greater social justice in our country. We have to ensure that the fruits of growth and progress reach the most deprived sectors. Because, in the last analysis, growth is not an end in itself, but a way of contributing towards developing, integrating and improving the quality of life of our people.

And also because, at a time of high technology, growth is itself dependent on this justice, since it is inconceivable that it could be achieved without a bettereducated, better-fed population with access to health and housing resources.

If we are able to set ourselves these goals realistically today, it is because Argentina has had and still has businessmen capable of surviving in bad times and holding on with conviction and energy to their own values and faith in the future. Businessmen who realised in time that they had to back investment, production and industrial activity even in times when there was a strong temptation to get involved in a financial bubble of speculation.

> To sum up: we have faith in the process of transformation in Argentina and the possibilities offered by the country, not only from the point of view of business opportunities, but also because of the very existence of a managerial class that is demonstrating its ability to face up to challenges.

m capacity pipeline to Chile which will

come on stream next year will relieve

overload on the transport network in the

south of Argentina. The increased oil production will be exported to Chile, while

maintaining supplies to the big energy

The impending privatisation of state-owned oil glant YPF should further impro-

veefficiency. Mr Jose Estenssoro. YPF's

president, has devoted most of his energies

to restructuring the company to prepare it

for privatisation, but spent less time improving its efficiency. Financial market

analysts say that YPF's productivity and

output should improve considerably when it is transferred to the private sector.

introduced by private utility operators is

impressive. When the government trans-

ferred last year Central Costanera, one of

Buenos Aires' big thermal plants, none of

its generators were working but now all seven are working perfectly. Private util-ity operators - all of them foreign - have

and energy theft.

ment to corruption.

o cut down on wastage through leaks

This year will also see the privatisation

of several hydro dams - including the big

Rio Limay complex in southern Argentina - and the Transener national grid com-

The Yacyreta dam, built across the Par-

ana river together with Paraguay, should

at last begin producing electricity this

year. The 2,700 MW dam was designed 20

years ago and has cost about \$12bn. Origi-

nally budgeted at \$3.75hn, it has come in

six years behind schedule. President

Carlos Menem declared he dam a monu-

As Yacyreta and the 1,400 MW Piedra

del Aguila dam in the Andes both come on

stream, the danger of power blackouts -

all too frequent during the past ten years - should become a thing of the past.

The government is also playing with the

idea of privatising the operation of its two

nuclear power stations. The proceeds would be used to complete Atucha II, the

country's third nuclear plant, which has

been delayed for over ten years by budget

The impact of improved management

consumers in Buenos Aires.

## **Envy of the neighbours**

resources, but until very recently made little effort to develop them. A virtual state monopoly over the energy sector prevented Argentina from exploiting resources that are the envy of its neighbours. Argentina has:

Sufficient oil production to meet domestic needs and produce an exportable sur-plus, Reserves are estimated at about 240m cu m, equivalent to about 7-8 years' con-

• Gas reserves of about 560bn cu m. equivalent to about 30 years' consumption at current rates.

 Hydroelectric power that can be harnessed from ten main river systems and several Andean valleys ideally shaped for

The elimination of state monopolies, removal of the crushing burden of overregulation and liberalisation of foreign investment laws has made energy one of Argentina's fastest-growing sectors.

Oil output last year rose 15 per cent to 31.8m cu m. Despite increased consumption, Argentina still exported \$924m in oil and oil products, a 21 per cent increase

The industry is becoming a magnet for investment and technology. Shell has raised annual investments to \$100m a year, up from an average \$34m a year in the period 1986-90. Receipts from the privatisation of the entire gas industry, plus substantial chunks of the oil and electricity industries already exceed \$6.7bn.

Norcen, a medium-sized Canadian independent oil company, has invested \$25m in Argentina, bringing with it technology that had not been applied widely there before, such as three-dimensional seismic prospecting or horizontal drilling tech-

The private companies' new technology and better management have led to the dramatic improvement in production. But there is still much to be done. The Energy Department says Argentine companies recover only about 20-22 per cent of rves, against an international average

The government is benefiting from the oil boom in several ways. First, through

ing tax and royalty flows from private companies. Furthermore, oil exports to Brazil are expected to rise sharply, offsetting its heavy trade imbalance.

More productive investments will also improve the economy's overall efficiency. Fiel, an industry-funded economic think tank, estimates that the state wasted well over \$35bn through inefficient investments, much of them in energy, in the period 1970-1991. Fiel says the private sector should be much more productive investors than the public sector.

As part of the privatisation contracts, rivate operators in the gas, oil and electricity industries are required to make mandatory investments. The gas industry alone, for example, must invest \$612m in the period 1933-87. However the government believes companies will invest a further \$630m of their own accord.

improved management has been introduced by private utility

In oil - where mandatory investments are lower - the forecast is for \$7.7bn investments in exploration, production, refining and marketing, industrial consumers will also benefit from more reliable supplies and lower prices. Until recently, large companies often built their own mini power stations to guarantee electricity supplies for their factories, and sold excess power to the national grid.

However, Mr Jorge Bres, president of Shell's Argentina subsidiary, warns against complacency. He says sustaining growth in energy output "will require a very important, sustained effort. The bottom line is that you cannot take it for granted. It requires hard work, investment and yet more investment.

Investment is also hadly needed in energy-related infrastructure. The state-owned gas and oil monopolies neglected maintenance of their trunk pipeline networks, with the result that these systems are operating well below capacity, so any large increase in gas and oil output will further strain capacity.

BUENOS AIRES: one of the world's expensive cities

## Measured on the Big Mac index

invented by The Economist magazine, suggests Argen-tina's exchange rate is heavily overvalued and helps to explain why Buenos Aires is me of the world's more expen-

A Big Mac hamburger bought at the McDonald's on Calle Florida, Buenos Aires' busy shopping street costs \$3.60. In New York, the same hamburger made with the same ingredients to an identical recipe costs \$2.28. Conclusion: Argentina's peso is 58 per cent overvalued.

Foreigners must contend with prices of goods and services that are uncomfortably reminiscent of western Europe, but whose quality is unmistakeably Latin American. Infuriatingly, complaints about high prices are often met with supercilious replies like: "The dollar is worth

nothing in Argentina". Arguing that the peso is overvalued is heresy. Economy minister, Domingo Cavallo, says he will never devalue, despite inflation of more than 40 per cent since congress passed a law fixing the exchange rate at one peso to one dollar in April 1991.

The official line is that Argentina will always be an is more developed than its neighbours. Its workers are better educated and more productive (a claim questioned by ome international compa with operations in Brazil and Chile). The exchange rate, therefore, is here to stay.



The lively theatre and restaurant

In a way Mr Cavallo is right. Devaluation in Argentina is practically impossible. This is because the US dollar is Argentina's real currency, not the neso. Prices may be quoted ing calculations are still made in dollars, a habit picked up over the years of heavy inflation. Any nominal devaluation would lead to a sport of inflation that would depress the exchange rate, leaving it

unchanged in real terms. In recent weeks a debate over the meaning of the Big Mac index has raged in Argentina's media. Certainly, the Big Mac index is more revealing than one would think. McDonalds says that it charges more for its hamburgers because its inputs - bread, beef, wages, taxes, rent - are

US. This is improbable. Pedro Lacoste, a Buenos Aires business consultant, argues that shows that MacDonalds is charging a hefty premium, not that the exchange rate is

depressed. He says McDonalds is a relatively recent arrival in Buenos Aires. Its restaurants are in prime locations and appeal to upper middle class families fascinated by the American way of life and prepared to pay prices 58 per cent higher than in the UK.

Juan Llach, economic planning secretary, and one of Mr Cavallo's most trusted lientenants, says the only thing the Big Mac index proves is that consumer prices are distorted by a hugely inefficient retail network. He also thinks McDonalds has margins of more than 50 per cent. Mr Llach says that like other retailers - providers of services and non-tradeable goods who are exposed to little com-petition — McDonalds has been able to raise its margins with

Others would add that they are raising their prices in response to a consumer boom, the like of which Argentina has not seen on over decade. As a result, retail prices have risen by more than 40 per cent in two years in dollar terms, while producer prices have increased by only 9 per cent. And booming consumer demand is still pushing retail inflation up by about 1 per

Although visitors are horri-fied by the prices charged in Buenos Aires, Argentina's exports have not collapsed -as one would expect if the exchange rate had fallen by half. This is because the price of industrial and export goods has increased in line wholesale prices. And ferocious import competition

linked to world inflation. Last month the government published revised data showing that Argentina's gross domestic product - the sum of goods and services produced in a year - rose to \$226.64bn in 1992, a nominal rise of 25 per cent over 1991. This impressive, not to say surprising achievement, makes Argentina the wealthiest country in Latin America, a fact frequently quoted by President

Carlos Menem in his speeches. Here again, the facts are less conclusive. After all, according to the government's own \$68.92bp in 1990, a year when hyperinflation destroyed Argentina's currency. Clearly. hyperinflation distorted the data. However, it is just as likely that today's exchange

#### Retail inflation is rising by about 1 per cent every month

rate is also distorting GDP figures in the opposite direction. In fact, Argentina's GDP may be overstated by about 15 per cent. The government's ares show that income per head last year was \$6.870. But according to data published by The Economist newspaper, this was worth only \$5,930 because Argentina's cost of living is so high. Therefore, in purchasing power terms, the economy is only about \$190bn, much less than the govern-

in the last two years has taken

the form of incorporating new

equipment rather than green-

field expansions. Trade data

goods in 1992 rose to \$3.87bn,

twice the previous year's level

and the highest figure in over

need to develop modern man-

agement techniques. One

Argentine executive com-

mented: "Private company

management leaves a lot to be

desired. Managers are compla-

cent: they must change their

mentality. The changes that

Cavallo is trying to bring

Just as important, companies

20 years.

John Barham

NDUSTRIALISTS say their turn its attention to micro-ecomessage is at last getting through to Mr Domingo Cavallo: market forces alone will not be enough to transform Argentina's obsolete and

uncompetitive industry. Mr Cavallo does seem to have begun shifting away from a laisser-faire to a more interven-The main changes are: Loans bearing below-market interest from the government's

Ranco de la Nacion Argentina (BNA) worth \$4.5bn this year, will be targeted mainly at exporters, small businesses

 Companies can import capital goods duty free, at a saving communications, or those in the booming consumer goods tic capital goods makers are entitled to a 15 per cent sub-

 Last October's imposition of a 10 per cent surcharge on all imports (now waived for capi-tal goods), a move specifically designed to increase industry's protection from imports.

However, Mr Cavallo is quick to deny that these changes represent a shift back towards statism. His point is that having achieved macroeconomic stabilisation, the government is now able to

rect bank lending to industry and create a broader capital market are encountering con-

Despite the government's greater interest in industrial policy, businesses are aware pretectionism. They see Mr Cavallo's refocusing as little

more than fine tuning.
The corporate scene varies immensely. Industries insulated from external competithe service sector, such as tele-

But exporters or companies facing import competition - especially from Brazil - must contend with an uncompetitive currency and one of the world's freest trade policies, despite a hefty rise in import duties last year. The paper and pulp, steel, textile and petro-chemicals industries are suffering the most, but Mr Cavallo has rejected demands for spe-cial breaks for these industries.

that there will be no return to

Martorana, IBM's president, tion such as cars, or those in

nomic issues that it previously

Mr Cavallo's efforts to redisiderable obstacles.

on some form of performancerelated pay. Still, Mr Ricardo

Companies are responding

had to ignore.

by aggressive cost cutting and productivity drives. IBM, for instance, has been able to maintain its 6 per cent margin on its exports of magnetic tape units and printers. All staff are

> says there is still room for yet more cost cutting. Even a medium-sized company like SICA, a family-owned the bullet. Mr Cesar Wen-grower, its vice president, says be has had to cut his workforce by a 20 per cent and boost sales by 20 per cent to

hold his margin at 7 per cent of The car industry remains the big exception to the govern-ment's free market principles. The industry is protected by import duties of 20 per cent and quotas limiting import penetration to 9 per cent of the market.

Manufacturers may, how

ever, import cars and pay a token 2 per cent duty. Individuals can also import cars, but facea 20 per cent tariff, the effects of import liberalisation import more, but they must balance their trade, no easy can be seen on the streets of task when Argentina's produc-Buenos Aires; where imported tivity still lags leading markets cars, once rarities, are now a

Industrial companies are responding to foreign competition

Trade in cars between Argentine and Brazil is carefully controlled. Bilateral car trade is set at 40,000 units a two countries must be balanced. However, recession in Brazil and boom times in Argentina led to a 20,000 vehicle shortfall in Argentine exports to Brazil

Mr Edward Orsini, vice-president of Autolatina, the Volkswagen-Ford joint venture with factories in Argentina and Brazil, says Argentina's car reg is no more restrictive than other countries. And, as elsewhere, car industry policy is a licate issue because car companies employ many people.

Room for more cost-cutting The corollary of protection is regulation: for example, car companies may now be able to

> by about 30-50 per cent. However, the car industry is making progress in closing the productivity gap. Autolatina has been able to hold its margins steady for the last two

last for many years". He says that Argentina could be building 500,000 units a year within three years. The recovery in labour and other hand costs. lating into the black in 1991 for

The industry's output last year hit a record 261,942 units, up from just 99,639 in 1990, the worst year on record. Mr Manuel Antelo, president of CIA-DEA, the smallest of Argentina's three carmakers which Industrial investments like makes Renault cars under licence, says "this bonanza will

the first time in a decade. CIA-DEA expects a \$80m-100m 1993 net profit on sales of \$1.4bn. Improved trading conditions are drawing companies back to

cept a month.

In May, General Motors approunced it would invest \$100m in a pick-up truck plant in Argentina, 15 years after quitting as the country sank into political anarchy. CIA-DEA, GM's local partner plans investments of its own of about \$150m in 1993-94.

these are desperately needed to shore up Argentina's lopsided trade structure: 70 per cent of its exports are primary goods, but nearly all its imports are Most of the investment seer

require new management skills." John Barham









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#### ARGENTINA 6

George Philip examines recent reforms in the context of Latin America

## Trick is finding something to offer

which we think about Latin American politics. It used to be

so much simpler. On the left were the populists. They made growth and the redistribution of income their top priorities. They resorted to unorthodox financial policies and heavy state intervention. The result was a short-lived boom followed by rising inflation, popular discontent and - not infrequentlymilitary intervention.

On the right were the economic liberals. These deflated the economy, repressed those who resisted, and encouraged private investment. The result was to restore economic growth, but at a high social price. Because the price was so high, successful right-wing policies were associated with authoritarian governments -Pinochet in Chile, or the PRI in Mexico. Democratically elected governments adopting such olicies - Collor in Brazil, or Perez in Venezuela - risked real disaster. Because they were so unpopular, policies of liberal capitalism were consistently rejected by democratic

At the beginning, Menem was seen as a populist. In some

over the country to foreign ing imports with alarm, but Argentinian oil production is rate, still reasonably popular. His method of attracting the For an Argentine president return of capital was by radical well into his fourth year in office that is an achievement in

itself. Yet, his economic poli-

cies are, in some respects.

clearly liberal. Orthodox

finance, the abandonment of

Third World causes, radical

privatisation and serious

efforts to collect taxes have not

until recently ranked high on

the list of policies calculated to

increase the popularity of

Latin American presidents. So

what has Menem done, and why has he got away with it? The trick has been to find

something to offer people at

most levels of Argentina soci-

acceptable to the most strategi-

cally-important sector, which

is the Argentinian business

class. Menem started with an

advantage not so readily avail-

able to the presidents of genu-

inely poor (as opposed to poor-

held abroad by Argentinians,

and Argentina still had a large

national private sector. If he could win business confidence,

Menem could bring a large inflow of capital into Argen-

tina without risking the accu-

sation that he was handing

John Barham finds the film industry enjoying a renaissance - and in crisis

A lot of money was in 1989

naged) countries.

ety within a policy context

privatisation. It helped that he had television channels to privatise. The buyers were not likely to evaluate Menem's policies. Of greater economic importance was the sheer magnitude of the sell-off. From 1991 to 1994 inclusive, privatisation receipts are on course to total around \$16bn. This amounts to

At the beginning Menem was seen as a populist and in some ways he still is - he is, at any rate, reasonably popular

some \$4bn. a year. By way of comparison, the total Argentine import hill in 1990 was just

The point about privatisation on this scale is that it is not merely a way for the government to raise money or to improve the performance of some specific sectors of the economy. There are macroeco-Inflows of capital of this amount will raise the exchange rate and allow an increase in imports. Argentine imports have trebled since 1990.

Economists may regard ris-

steadily growing GDP and rising standards generally.

from a political point of view

they are very helpful. Middle

class Argentinians can afford

whisky and designer clothes.

Poorer Argentinians can make

a living by marketing them.

Meanwhile a rising real

exchange rate has helped the

government to bring the rate

of inflation down dramatically

while inflicting little real pain.

Since 1990 sharply falling infla-

tion has been associated with

Nor are these benefits necessarily for the short term only. The buyers of privatised asse have had to agree to invest heavily and they are now beginning to do so. Most stateowned assets have in fact suffered from neglected over a long period, in addition to being poorly run. The potential for increases in efficiency and therefore profitability is con-

In some cases there are also direct balance of payments advantages. For example, rising steadily and there are stories of private sector companies earning huge and easy returns from introducing secondary recovery techniques for the first time into newly privatised oilfields. Meanwhile the government is disembarrassed of loss-making stated companies and it can concentrate its budget on providing benefits and necessary services for poorer Argentinians.

These reforms are very important, but Menem is only a free market liberal up to a certain point. There has been no attempt, as was the case with Pinochet's Chile, to reorganise the whole society around market principles. Lahour laws still make dismissal difficult, and state companies wishing to reduce their staff - YPF for example - have spent fortunes on compensation packages. Some foreign buyers of state assets, thinking that they could hire and fire at will, have at times been rudely surprised. Tight labour laws have also helped real wages to rise since 1990, since economic restructuring has not led to

rious unemployment. Neither has Menem ended a particularly Argentinian practice, according to which the

main trade unions actively administer very large social. welfare budgets. Instead proposals exist to allow these unions to participate more actively in the capital market in association with the local financial sector. In Argentina at least, pension funds may be much more secure in the private sector than in the hands of the state. In 1989 an Argentinian minister revealed that some \$65bn. of pension funds had disappeared from state coffers without trace.

Menem therefore retains good contacts within the CGTand within the Peronist organisation. Unlike Perez in Venezuela he retains the confidence. of most of his own party. He can still get crucial laws through Congress. He is, in short, still very much a Peronist with a belief in national unity who retains the confidence of people who voted for

There is in Argentina, as in much of Latin America, a considerable popular attachment to corporatist institutions coexisting with disrespect for the public sector itself. Menem has dismantied much of the public sector, but has shown no hostility to corporatist ideas as such. This is an interesting combination which may be more appropriate in Latin America today than either pure populism or dogmatic economic liberalism.

Dr George Philip is Reader in Latin American Politics at the London School of Economics

RGENTINA's film directors enjoy prestige, influence and an interna-Lional reputation to which few of their Latin colleagues can aspire. Directors, such as Ms Maria Luisa Bemberg, are internationally respected. Mr Luis Puenzo won an Oscar in 1986 for The Official Story. Mr Fernando Solanas won a Cannes prize in 1988 as best director.

The Obelisk in the Avenida 9 de Julio, Buenos Aires

Directors have become the keepers of Argentina's conscience. Far too many Argentines would prefer to forget about the people who "disappeared" during the 1976-83 military regime, or ignore the poverty and despair that economic change is

The industry seems to be going through a renaissance. But the truth is that Argentine cinema is perhaps facing the greatest crisis in its history. Like everywhere else in the world, people are making fewer visits to the cinema and watching videos

The problem is that this trend has been more prominent in Argentina than in most other countries. Twenty years ago, Argentina had more than 3,000 cinemas. Today it has about 260. In contrast, there are about 1,400 cable TV companies, and video clubs

Celluloid keepers of conscience proliferate on every street corner. Less than ten years ago, a successful locallymade film could sell over more than 3m

400,000 tickets. Few films sell more than 100,000 tickets. Mr Fernando Solanas, the angry old man of Argentine cinema, worries that people who are not able to create their own images are too weak to defend their own cultural identity. "We are condemned to consuming images from abroad, but there is no reciprocity. They do not accept out

tickets. Today a successful film sells

Still, Argentines remain great cinephiles. But instead of going to the cinema they are watching films at home. The trouble is government film subsidies are tied to the number of cinema tickets a film sells. The fewer tickets sold, the less government money it gets. And government

everywhere outside Hollywood.

Mr Luis Puenzo, who made TheOfficial Story and Old Gringo, gloomily predicts that Argentina will not make much more than half a dozen movies this year. In the postwar years, it turned out a film a week.

Films these days need international support. Mr Luis Cesar d'Angiolillo, whose Matar el Abuelito was co-produced with Spanish TV, says: "It's difficult to make films in Argentina. For us, it's a very expensive activity, although for the rest of the world our costs are very low."

As well as money, these co-productions attract big names which help independent productions compete with Hollywood films. Also, international backing gives directors a chance to broaden their range. Puenzo made a \$15m film version of Albert Camus' The Plague in Buenos Aires, star-

\$15m budget covered by French producers. Maria Luisa Bemberg's new film, De Eso no se Habla (We don't Talk About This). stars Marcello Mastroianni in an Argen-

tine-Italian co-production. Argentine films tend to be bleak if not spocalyptic, with an occasional tendency to becoming ponderous and prolix. Tristan Bauer's Despues de la Tormenta - a film about despair, decay and poverty is as powerful as it is depressing.

Luis Puenzo says he chose to set The Plague in contemporary Latin America because, "the plague is in the last instance, evil. This relates indirectly to what happened to us with the military. The plague is an ambiguous, hidden, ill-defined evil. The central theme of the book and the film is that the plague always returns. The bacillus never dies."

his latest film El Viaje (The Journey), a long-winded satire on modern Latin America. It tells the story of a young man's search for his missing father. On his travels he encounters Buenos Aires awash with greed and corruption. With the deft use of special effects, the city is shown flooded with sewage.

Mr Solanas makes harsh criticisms of Mr Menem, who, predictably, is suing him for slander. Solanas' career gives an idea of the skills Argentine directors need to survive. In the 25 years since La Hora de los Hornos, his first feature film. Mr Solanas was exiled for eight years and has made only five other films. He says: "A film maker is an organiser who has to do everything. El Viaje was filmed in five countries and took five years to make. I may not make another film for two years."



Still, Argentina's film industry is unlikely to die. Mr Puenzo says 2,500 people are studying film making, plus countless thousands more studying drama. And successful Argentine directors invariably come home. Mr Puenzo says he wants his next project to be a low budget film made in Argentina, spoken in Spanish, with Argentine actors and dealing with Argen-

# The Prize of transformation.

#### The big challenge.

Three years ago YPF, Argentina's largest company, started an unprecedented process of transformation for an enterprise of it's size and importance. The main goal behind this profound change was focusing the company's activities as a fully integrated petroleum company, ridding it of unnecessary operations which burned out its resources. It really came down to devoting all efforts to the main activities: exploring, and producing, refining and trading.

At the same time, as of January 1, 1991 a complete liberation and deregulation of the oil market was achieved; until then, it had been absurdly restricted, to the detriment of the consumers and the country.

Transformation starts to take shape in a new environment. It was the only feasible alternative, because in a deregulated. competitive market the "old" YPF would have been unable to survive.

Because it possessed oil areas which could not be adequately explored and exploited: mismanaged refineries, drilling equipment and oil pipelines which created a high level of unused capacity; a fleet of ships and airplanes, with shipyards, hangars and aircraft maintenance shops; stores, clubs, supermarkets and hospitals.

Yearly production was in stagnation, and the 1990 deficit caused operating losses for 712 million dollars. The commercial network was

inefficient, both as regards its size and the products it offered.

YPF was a large company. But it was unable to face competition or to turn a profit.

## The transformation process.

The first objective was restructuring the company. Removing managerial, technical and financial problems which hindered its performance, diminishing the company's value. Exploration activities were stepped up at the Golfo San Jorge and Neuquen basins. Production was boosted there as well as in the Cuyo basin. The other important basins -Norte and Austral- were bid among large Argentine and international companies for production in association with YPF which induced additional important private investment. This too led to important private investment. A similar procedure was adopted with refineries. Through sales or associations, three refineries which were no longer necessary for an integrated operation were transferred to the private sector. Significant production increases were obtained at the three refineries YPF chose to retain.

Profound changes were introduced and are still under way on the commercial area, modernising structures and updating the product lines. In short: trimming down the company to optimise integration and increase production.

A new YPF, ready to compete... and win

The National Government's decision in August 1990 to turn YPF into a private company was the leading motive behind each step of the transformation process. The results are evident: in that same year, YPF reverted its chronic deficit and scored a profit. Operational profits reached 266 million dollars in 1991, and 529 million in 1992. Net sales figures per employee climbed from 88,000 to 112,000 dollars / year in 1991, while in 1992 it reached 213,000 dollars. YPF is now Argentina's leading exporting company Exports reached 694 million dollars in

## Transformation for growth.

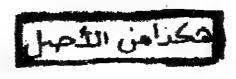
YPF works towards the future with resolution. As a modern, efficient company, a wide horizon opens before it. The transformation of Argentina's most important company -one of the 300 leading companies in the world- is coming through with all it's goals achieved.

YPF keeps on being a big company. But today it's also dynamic and profitable.

Ready for competition and growth. Because it dared face the challenge of transformation.

A company with prize,





REPEAT

BORC: OUT FILE



## TECHNOLOGY



USER PROFILE tiands is a state school in Torquay which has pioneered work in using expert systems software in teaching other subjects as well as computing. Nature of Business: The education

of 1,200 pupils in the area around Torquay, Torbay, Paignton and the Newton Abbot area. There is a staff of 78 teachers and 15 auxiliary staff. Budget: School budget is £2.1m per annum including salaries: The newly refurbished computer centre cost £12,000: the computer department has an annual budget of £1,800 covering purchase of four computers a year, books, running of PC network, etc. Other departments buy their own computers which are connected to the network (worth around £15,000 ).

Key Personnel: Head teacher Griff Madoc-Jones, David Bowles, senior teacher (curriculum and technology co-ordinator), Geoff White, head of computing and cross-curricular IT.

TECHNOLOGY FILE

a Hunter

· lifeline

 $s = J/2\pi n g$ 

Software: The Crystal expert system from intelligent Environments is used both by White and pupils to build systems for use in the classroom in subjects other than computing. Westlands holds a 10-user licence funded by Devon Education Authority at a discount price of £600. Hardware: A PC network of Nimbus PCs from Research Machines, plus a CD-ROM server and Nimbus 286 server. There are 14 machines in the new computer suite at the Upper School and a further seven networked around the school in geography, English, science, home economics,

constant use. There are also four Nambus ridalone computera, and a couple of Research machines notebooks, all

careers and the library, which are in

compatible. Supplier: The Crystal software was developed by Intelligent Environments, founded in 1985 and based in Sunbury on Themes. IE had a tumover of £3.5m in 1992, up from \$2.9m in 1991. The compan employs 35 people in the US, from where it derives 60 per cent of the income. More then 8,000 licences have been sold to developers, meulting in 300,000 runtime (or user): ficences, 100,000 of them for NatWeet's Phieros system, NeiWeet's Phane system.
Goet of system: Crystal usually costs
11,296 with a "fast start" version
Including examples at 21,686; Tea
funtime somces for users of
developed expert applications each

Control of the second of the Con-

ext term, some of the youngest consultants in the country will come out of their classrooms. Studenta from Westlands Upper School in Torquay, Devon will be talking to businesses in the surrounding Torbay area, armed with a computerised expert system called Pharos that gives advice on trading in Europe.

The students seek a first-hand understanding of economics, in which the computer system is a useful tool. If the plan works, the dialogue that takes place should benefit students and businesses alike.

Pharos belongs to National Westminster Bank, which has been advertising its services on televi-sion as an aid to business. For Westlands pupils, the knowledge-based technology on which Pharos is based - a software product called Crystal – is a familiar classroom tool. The pupils have used it for 18 months as an integral part of the work and in line with the requirements of the National Curriculum.

Crystal is widely used in com-merce and higher education to cre-ate expert systems, but Westlands is the only school in the country to have licensed a copy. Its existence there is largely due to the head of computing, Geoff White, whose enthusiasm has led Westlands to set up Cress, the Centre for Research into the use of Expert Systems in Schools. White developed an interest in expert systems while taking a Dip. Ed and M. Ed in educational computing. He has experimented with several generations of systems, including the knowledge-based tools Linx and Adex.

Crystal, he discovered, was the only product with the power to provide interactivity beyond the simple yes and no choices usually dis-played. A powerful "expert system shell", Crystal allows for measurements, calculations and other interactive information on which it

The verdicts delivered by the system are based on pre-programme rules, the common principle of all expert systems. White programs these rules into systems designed as teaching aids for geography, history, science and other subjects.

An early use for Crystal was to help pupils define and find likely sites for Angio-Saxon settlements. You don't have to spend as much time as you'd expect teaching computing, because they do it intuitively," White says.

One of White's Crystal programs, Facsite, is used to combine geography and map-reading with information technology.

Class 10G is the first to use the new, purpose-built computer centre at Westlands. The class, a mixedability group of 15 fourth formers year 10 under the new educational

A school in Devon is using knowledge-based software in subjects from geography to English to help students think more deeply and objectively, says Claire Gooding

## Making lessons Crystal clear

levels and planning permission.

Each screen displays a question and

asks for some input, such as a mea-sure of the local population, giving an equation based on land area.

Pupils calculate the answers and

feed them into the system. Then,

## AT WORK

grouping - is using Facsite as a follow-up to a more conventional geography lesson. The task is to find a good site for a new factory, starting with a map. The one handed out first is of Tamworth,

West Midlands and district. The pupils sit in clusters of two or three at the screens, each group

unless Facsite's answer rules out the site, it is on to the next question. "The first thing I look for is flat land, but it mustn't be marshy," explains 15-year-old Mark Walker. Then we look at the roads. We've done this before on paper, but it's much more interesting using the EXPERT SYSTEMS are also known as knowledge-based systems, KBS. An offshoot of early artificial intelligence (Al) research, they are rule-based, using the

answers entered by users to refine the information and prompt the next que An expert system "shall" such as Crystal provides the KBS developer with a framework linking questions, rules and screens. The rules are often derived from one human expert and can include uncertainties, usually expressed as percentages. sharing an Ordnance Survey man. computer.' As well as being a a practical exer-

cise in map-reading skills, Pacsite deals with questions involving everything from geology to local demography which come into play when siting a factory. It raises ques-tions about the relief of the land, the nature of its surface and drainage, population and transport services, land prices, unemployment

Class 10G's teacher, John Birch, is head of humanities and geography at Westlands. After 20 minutes going from group to group, he calls the class to attention to explain a question of geology in one of the maps. Teaching with Facsite is an interactive process and Birch sees the computer system as a valuable motivator. "Anything that's visual

disappointing area of the computer industry in the past

-based systems is attr

computer makes on hand on putchy

helps lower-ability pupils, but the classes must be small," he says. Birch has to keep an eye on fulfilling the National Curriculum checklist of 114 "statements of attainment" (including IT) in his subject. "This sort of le longer, but they are finding the answers for themselven."

That, says White, is what makes Crystal so valuable. "It's the interactivity that punches the message home. In the paper exercise it is easy to write 'tt must be near a railway station'. But the system makes them quantify and question: how near? . . . It makes them think objectively and a lot more deeply if they use an expert system, or even better, write their own."

Writing an expert system is a matter of developing and defining the rules inherent in decision-making. Crystal provides the frame-work, or "shell", with screen windows and help screens ordering and refining the process. White believes this has given pupils an understanding of issues - for instance in another Crystal exercise, the crisis a nomadic tribe might face if it stays in one area too long.

"It makes them see the consequences more clearly because they decide on the input," White says. The teaching of computing is cur-



rently in flux, with current courses being scrapped in September 1993. IT and computer studies used to be a GCSE, a largely theoretical course, CLAIT, Computer Literacy and Information Technology is a

more practical course, embracing

database, apreadsheets, videotext and desktop publishing. The new courses are on IT (resembling CLAIT), and Information Systems, a more broadly based course, of which White approves.

"It's much more tuned to giving an understanding of IT in business,

dealing with the communication and handling of information." The new courses will include modelling with spreadsheets, educationa games, measurement and control and applications and effects of computers in modern society.

It is the job of David Bowles, senior teacher in charge of the curriculum, IT and technology, to oversee the introduction of the National Curriculum courses. He has seen the teaching of computing progress from an O-level in 1980 - which involved five weeks of computing history and a remote link to a mainframe - to the new package-based eaching. "In the big world outside people use IT to solve a problem not for the sake of it. It makes sense to teach it the same way."

"Children get blase very quickly about new technologies such as videos. Computing might go the same way unless we use it wisely. which is to develop computing as a cross-curricular subject. They learn their IT in geography, history, English, science and mathematics, almost all subjects. Geoff does more cross-curricular teaching than any-

Taking IT for granted is part of modern education. When the pupils go out armed with Pharos, their confidence at the screen might be as important as any knowledge about trading in the single market.

#### CONSULTANT'S CRITIQUE

the actool that I know of restricts pens and pencits solely to the art department Sadly, few schools are as enlightened about comput Many systems are still the exclusive province of the mathe or design & technology department, Westlands School

instrates that computers have more general application IT is integrated into other subjects as an enabling Whilet co programming can be regarded as a discipline, the use of a computer is far more general. In my opinion, expert systems

data. To do this, it needs an array of knowledge extracted from experts in the field and relativings to know what ofernation is important. White has been extrem the see skill rid point verious software tools used Crystal well. How transferable this case is to a

have been the most

10 years. The theory of

dubleum. Nat West's use of Pharos seems to me to be mon of a marketing tool than a serious business application Expert system shells such as Crystal Imposes a lavel of discipline. They are useful for identifying what you need to w to make a dec Whother they are of value in making that decision is a matter of conjecture.

One reason often stated for the apparent rarity of expert rices to that they give an apositive adventage that appared are refuctant to t about them. This is

that stallver real quetor benefits have become co knowledge very rapidly. The real issues from Westlands School is that a good

nager with viel Wishe, makes all the difference Highlights of this study are: If he a tool for all aroun of leminen, not just firming • Expert systems may be useful for imposing discipli

on problem-solving

Managers with vision make

The author is a consultant at Software Design and Construction.

#### REPEAT INVITATION TO TENDER FOR THE HIGHEST BID for the Purchase of the Assets of "BARCO S.A., TEXTILE INDUSTRIES", of Athens, Greece.

"ETHNIKI KEPHALEOU S.A. Administration of Assets and Liabilities of 1, Skouleniou Street, Athens, Greece, in its capacity as Liquidator of "BARCO S.A., TEXTILE INDUSTRIES", a company having its registered office in Metamorphossi, Athens, Greece (the "Company"), which is presently under the status of special liquidation according to the provisions of article 46a of Law 1892/1990 (as supplemented by article 14 of Law 2000/1991,

aunounces a call for tenders for the highest bid by submission of sealed binding offers for the purchase by public suction (the "Auction") of the assets of the Company, as a single whole. .

BRIEF INFORMATION: The Company was founded in 1956 and was in operation until 1981, when it was declared bankrupt. In 1988 it was brought back into operation, while in 1990 it was declared bankrupt for a second time. The Company's activities included the production, marketing and exporting of textiles. Assets include a factory, consisting of three buildings, with a total area of 34,115 m<sup>2</sup>, standing on a plot of land of 19,062 m<sup>2</sup>, machinery and mechanical equipment.

OFFERING MEMORANDUM-FURTHER INFORMATION: interested parties may obtain an Offering Memorandum in respect of the Company and the assets thereof and any further information, upon execution of a confidentiality agreement. TERMS AND CONDITIONS OF THE AUCTION

1. The Auction shall take piace in accordance with the provisions of article 46a of Law 1892/1990, the terms and conditions set forth herein and the "Terms and Conditions of Sale" contained in the Offering Memorandum. Such provisions and other terms and conditions shall apply irrespective of whether they are mentioned herein or not. Submission of binding offers shall mean acceptance of such provisions and other terms and conditions. Submission of offers in favour of third parties to be appointed at a later stage shall be accepted under the condition that express mention is made in this respect upon the submission and that the offeror shall give a personal guarantee in favour of such third party.

2. Binding Offers: For the participation in the Auction interested parties are hereby invited to submit binding offers, not later than the 21st June 1993, 11.00 hours, to the Athens Notary Public Mr Evangelos Karyofyllis, address: 7 Kratinou St., Athens, Tel: +30-1-

Offers should also expressly state the detailed terms of payment (in cash or in instalments, mentioning the number of instalments, the dates thereof and the proposed annual interest rate). In the event of no determination of a) the way of payment, or b) whether the instalments bear interest and c) the interest rate, then it shall be deemed that a) the offered price is payable immediately in cash, b) the instalments shall bear no interest and c) the interest rate shall be the legal rate from time to time in force (presently 37% yearly). Binding offers submitted later than the prescribed time limit, as referred to hereinabove, shall neither be accepted nor considered.

The offers shall be binding until the adjudication. 3. Letters of Guarantee. Binding offers must be accompanied by letters of guarantee, for an amount of drs two hundred million (200,000,000), issued, in accordance with the draft form of letter of guarantee contained in the Offering Memorandum, by a bank legally operating in Greece, to be valid until the adjudication. Letters of guarantee shall be returned after the adjudication. In the event of non-compliance with the provisions and other terms and conditions referred to in paragraph 1 hereof, the letters of guarantee shall

4. Submissions: Binding offers together with the letters of guarantee shall be submitted in sealed envelopes.

Submissions shall be made in person or through a duly authorised agent. 5. Envelopes containing the binding offers shall be unsealed by the above mentioned Notary Public in his office, on the 21 June 1993 Envelopes containing the officer of the last of the deed attesting the unscaling of at 13.00 hours. Any party having duly submitted a binding offer shall be entitled to attend and sign the deed attesting the unscaling of

6. As highest bidder shall considered the participant whose offer will be judged, by the 51% of the Company's creditors (the o. As arguest bruder shall considered an expension of the liquidator, to be in the best interests of all of the creditors of the "Creditors"), in their absolute discretion, upon suggestion of the liquidator, to be in the best interests of all of the creditors of the "Creditors"), in their absolute discretion, upon a second an offer proposed to be paid in instalments, the present value thereof Company. Mention is made that for the purposes of evaluating an offer proposed to be paid in instalments, the present value thereof company. Mention is made that for all purposes value thereof shall be taken into account which shall be calculated on the basis of a discount interest at an annual rate of 22% compounded quarterly shall be taken into account which shall be calculated on the basis of a discount interest at an annual rate of 22% compounded quarterly

7. The liquidator shall give written notice to the highest bidder to appear on the date and place mentioned therein and execute the con-/. The inquicator shall give within and execute the contract of sale in accordance with the terms contained in his binding offer and/or any other improved terms which may be suggested by tract of sale in accordance with the terms contained in his binding offer and/or any other improved terms which may be suggested by

tract or sale in accordance with the contract of sale.

the Creditors and agreed upon. Adjudication shall be deemed to take effect upon execution of the contract of sale. the Creditors and agreed upon. Augustation sales to the participation and the transfer of the asset offered hereby for sale shall be 8. All costs and expenses of any nature in respect to the participation and the transfer of the asset offered hereby for sale shall be

exclusively borne by the participants and the purchaser respectively. exclusively borne by the participants and the purchased respectively.

9. The liquidator and the Creditors shall have no liability nor obligation whatsoever towards the participants in relation to the evalua-9. The liquidator and the Creditors stant have a lightest bidder or any decision to repeat or cancel the Anction or any decision whatsoever in tion of the offers or the appointment of the highest bidder or any decision to repeat or cancel the Anction or any decision whatsoever in tion of the offers or the appointment of the highest state of the Auction. The liquidator and the notary shall have no liability for any legal or connection with the proceedings and the making of the Auction. The liquidator and the notary shall have no liability for any legal or connection with the proceedings and the manager of the shall not create any right for adjudication nor shall the participants acquire actual defects of the assets. Submission of binding offers shall not create any right for adjudication nor shall the participants acquire actual defects of the assets. Submission of binding offices and/or their participation in the Auction against the liquidator and/or the Creditors for any right, power or claim from this invitation and/or their participation in the Auction against the liquidator and/or the Creditors for

any reason whatsoever.

10. This invitation has been drafted in Greek and translated into English. In any event the Greek version shall prevail. This invitation has been drafted in Greek and translated into Engineer, in any event the Orienk version shall prevail.

For obtaining the Offering Memorandum and for any further information please apply to the Liquidator. ETHNIKI KEPHALEOU

For obtaining the Offering Memorandum and for any further information please apply to the Liquidator. ETHNIKI KEPHALEOU For obtaining the Offering Memorandum and for any natural information prease apply to the Liquidator: ETHNIKI KEPHALEOU S.A. Administration of Assets and Liabilities address: 1 Skouleniou Street, 105 61 Athens, Greece tel: + 30-1-323 .1484, Fax: +30-5. Administration of Assets and Liabilities address: 1 Skouleniou Street, 105 61 Athens, Greece tel: + 30-1-323 .1484, Fax: +30-5. 1-321.7905 (attn. Mrs Marika Frangaki).



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Netherlands and Spain, compared

with a 38 per cent share the year

18

Such figures confirm the tendency for many multinational advertisers - attracted by cost savings and the convergence of consumer taste - to treat Europe as a single market. But it would be unwise to get carried away. Pan-European advertising remains largely a television phenomenon: US companies predominate (11 of the top 50 are American, including Kellogg's at number one); and uncertainty and ambivalence remain, even among the supposedly committed. A fifth of the biggest spending brands in 1991 in the Euromarketing survey failed to make the top 100 a year later.

Of the factors driving companies towards greater use of Euro-brand advertising, an important one is cost. Bill Britt, Euromarketing's editor, says the recent rapid growth of pan-European marketing is partly inspired by the financial

"It's much cheaper to shoot just one commercial and then use it across Europe. It's also cheaper for a company to assign one Euro-marketing manager and to have more junior product managers, rather than full marketing managers, at country

John Hegarty, creative director of the London-based independent advertising agency BBH, which makes pan-European advertising for Levi Jeans, agrees. A one minute television commercial costs about £300,000. By shooting a single TV ad to span six European markets, Levi Jeans saved itself about £1.5m.

Hewlett-Packard, the computer company, also cites cost efficiencies as one benefit of its pan-European approach. Says Roger Wilson, its director of communications and public affairs: "We don't have advertising executives across Europe any more".

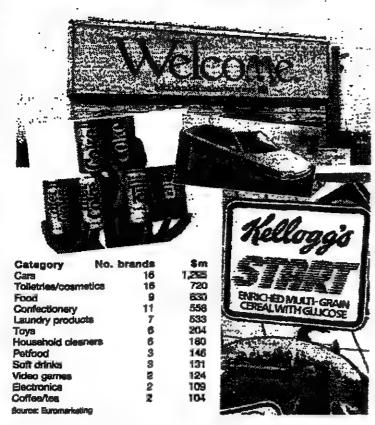
He adds: "in our business, information technology, where products sometimes have only six-month life cycles, we are absolutely convinced that marketing and advertising could

not be done any other way, The development cycle of the

## A universal message

Pan-European ads are increasingly common, writes Garv Mead

Biggest advertising groups in top 100 in 1992



product is now so short you can only afford to launch it once. The whole marketing process, including the advertising. is now pan-European'

Cars claimed the biggest share of pan-European advertising with 34 per cent of the total of the top 100 brands. Renault, Fiat, Peugeot-Talbot and Ford were all in the top

Tolletries and cosmetics came

next, with 14 per cent, food in third place with 12 per cent and confectionery and laundry products both taking 10 per cent. David Newkirk, vice-president of

management consultants Booz Allen & Hamilton, believes other, more fundamental factors are

responsible besides cost cutting. "The young and the rich have very similar tastes the world over, and that's what's driving the convergences in advertising and media", he says.

Before he joined Booz Allen & Hamilton in 1991, Newkirk was with American Express, where he promoted its gold card services worldwide. "Gold card means prestige everywhere. But the way you signal prestige varies with culture. The US gold card advertising was all about achievement and it was, frankly, tacky in Europe. We had to change it. But the basic propositions involved in products - be it freshness in soap powder, or

odour-free in toiletries, or young and trendy in soft drinks, or prestige in financial services -those underlying needs are very

similar wherever you go."

Differentiation at local level is nevertheless important even for companies with aspirations to be noticed internationally. Newkirk

"McDonalds, Coca-Cola, Pepsi, run global campaigns but they still execute them locally. Take Coca-Cola's new campaign featuring its return to an old bottle shape. In the UK, that campaign is running heavily on posters in bus-shelters, a medium that doesn't exist in the US. It's different again in France because poster sizes are different there. Such differences in media necessitate that a global advertising message is executed very differently

in different countries. "It's going to be a long time before the media and the way people use media converge, even if the products, the positionings, and the copy strategy all converge," he

John Hegarty argues that pan-European advertising can work at a deep cultural level, "if you

the differences between people".

"With Levis, people across Europe have a certain view of 'Americaness', and the advertising can tap into that commonly held view. Cars are the same; our experience of the car has developed in cohesion, transcending national borders. But the Italian experience of olive oil is very different to the British and it's harder - though not impossible - to do pan-European advertising for products which have very different national associations."

iles Colebrook, president and chief executive officer of JWT Europe, supports the idea that the most successful pan-European campaigns are those which have got their central proposition clearly defined. How that is interpreted locally is of less

'Nestlé Rowntree's chocolate bar Kit Kat is now sold throughout Europe with the same slogan ("Have a break, Have a Kit Kat") but whereas in Britain the TV ad features a children's puppet show, in Holland the voice-over is done by a Dutch humorist. Neither would work at all in the other country." The further away from a TV screen, however, the more difficult

create and to deliver a pan-European messas Promotion and purchase practices, product sampling, dealing with the trade and pricing are all local issues and are likely to remain

many experts say it becomes to

Tim Dickson on an alternative to takeovers

## An emerging taste for strategic alliances

n the absence of any new wave of cross-border takeovers, are joint ventures and other strategic alliances a better means of penetrating new markets? Many European

businesses seem to think so. The absolute number of such deals fell last year, which is not surprising in the depths of

More significant perhaps is the position of joint ventures and strategic alliances relative to the mergers and acquisitions arena. Figures from IFR Securities Data and Amdata show that M&A deals comfortably outpaced alliances by more than six to one in 1990. But in the first four months of this year the ratio had fallen to less than three to one.

That picture is confirmed in a report just published by the Conference Board\*, which indicates the "high degree" of interest in joint ventures and strategic alliances among dents polled in a recent survey of top European managers. It is also endorsed by advisers such as Price Waterhouse, recently appointed to manage a UK government programme intended to help small and medium-sized UK companies to establish closer

links with US businesses. PW's John Peacock says: "Joint ventures and strategic alliances have become an increasingly popular way of developing new products and entering new markets, often at a somewhat lower capital cost than investing directly or by acquisition".

Strategic alliances - distinct from mergers in that both sides retain their separate identities - can take many different forms and meet different objectives. Take the late 1991 joint venture between Coors of the US and Scottish & Newcastle, the UK regional brewer, specifically to market and to promote Coors' Extra Gold premium lager in the UK.
From S & N's point of view, the

licencing and distribution agreement added a further brand to its portfolio of premium lager, allowing marketing and promotion costs to be shared. For Coors, the attraction was immediate, low-cost access to a

new geographical market via a proven distribution network.

Unilever has traditionally preferred to have full control of its businesses. In the last year, however, the Anglo-Dutch group has formed a joint venture with PepsiCo, the US soft drinks and snacks group, to sell canned iced tea and with France's BSN to develop and market products combining ice cream and yoghurt. An attraction for Unilever, which will have operational control, was the chance to respond quickly to demand from US consumers.

the 50:50 joint venture between General Mīlis and Nestlé to use the combined potential of their brands to develop a ready to eat breakfast market, are offensive moves intended to create businesses from scratch and build on the complementary strengths of acknowledged industry leaders By contrast the decision by

Both the Unilever deals, and

Pepsico and General Mills to merge their existing European snack food operations - excluding the UK - in a 60:40 joint venture is a defensive move by two relatively weak players explicitly limited to one region.

Elsewhere, the sale to Beil Canada of a minority shareholding in Cable & Wireless's Mercury telecoms subsidiary shows how different objectives can be met.

For C & W, the deal served to

crystallise the value of Mercury into its share price and reduced its gearing. From Mercury's point of view, it opened a closer relationship with Bell's UK cable TV operators and access to marketing and technology skills and a retail distribution network. For Bell Canada, the deal not only provided a way into a new market, but offered competitive market experience for a company faced with the ending of its monopoly

The 50:50 joint venture between Wessex Water, one of the smaller UK privatised water companies, and Waste Management of the US, also reveals different agendas Wessex was keen to diversify from its price-regulated core water business into the waste management field. The deal leaves it virtually bid-proof (having made

shares to its partner). Waste Management has access to a new geographical market.

The apparent enthusiasm for strategic alliances goes against the grain of executives trained to accept full responsibility for what they do. Many fail, despite the amount of management time devoted to them.

it is too early to judge the recent-crop of ventures. But the Conference Board's report makes a useful contribution in this \_\_\_\_\_ regard. Based on many more stablished cases and also on new information from the European survey, it seeks to set guidelines for successful alliance management. Among the recommendations, the author megests that participants should • Conduct a cost/benefit analysis of favourable and unfavourable

Where possible, start an alliance small and build it up on

 Identify and address conflicts about activities critical to success,

deadlines, or government regulations. Generate widespread internal. political support

• Place operating managers on the negotiating team. Send divisive topics to higher-level negotiation groups.

 Structure the alliance with its own board of directors to speed the approval process. Not require the alliance to prepare two sets of financial control reporting systems, one

for each partner. Stay alert to early signs of termination: inflexibility in adapting operating procedures; conflict about management appointments; a reluctance to

19920

 In the termination process, determine what must be accomplished in order to allow the remaining partner to keep the former joint activity going.

\*Strategic Alliances: Guidelines for Successful Management. Available from Avenue Louise 207, Box 5, B-1050, Brussels, Tel(32) 2 640 6240. Price for associates \$20,

FINANCIAL TIMES CONFERENCES

## INTERNATIONAL TAX IN THE EEC AND THE US

## London, 14 & 15 June 1993

The Financial Times second international tax conference will focus on the crucial tax issues in the European Community, including direct and indirect tax harmonisation issues and VAT. US tax proposals affecting international business and future US transfer pricing methods will be addressed as well as the impact of the most recent tax treaty developments.

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## PEOPLE

## Tyrrell finds home away from the Abbey | From BBC to

James Tyrrell, group finance director of Abbey National, is stepping down to take up the same position at London International Group, the condomsto-photo-processing company with a market capitalisation only some 5 per cent the size of the Abbey. Ian Harley, appointed treasurer only last ummer, succeeds him.

The building society-turnedbank has earned a reputation for well-planned management successions, and it is understood that last summer's reshuffle of key executives con-firmed Tyrrell in his feeling that it was time to move on. Harley, then retail operations director, swapped jobs with Gareth Jones, who had been managing Abbey's profitable treasury operation. Outsiders concluded the two were being groomed for the top when Peter Birch, who turns 60 only

Tyrell, 52, a chartered accountant who trained with Coopers & Lybrand, has had a varied career. After a spell as finance director of Associated British Cinemas, he worked

Public posts

Roy Whithear, previously

finance director of Greenwell Montagu, has been appointed

the first secretary general of the council of the ASSOCIA-TION FOR CHILD PSYCHO-

■ Sandy Clark, director of AMEC Offshore Developments,

has been appointed chairman of the OFFSHORE CONTRAC-

■ Anne Mace, chief probation

officer of West Yorkshire, has been elected to the chair

of the ASSOCIATION OF

CHIEF OFFICERS OF PROBA-

■ George Gillon has been

appointed chairman of the City

■ Mike Grindrod, general

manager of Co-op Travelcare,

will become chairman of the

**ABTA National Training Board** 

when his ABTA presidency

TORS ASSOCIATION; be suc-

ceeds Bruce Harris who has

been elected chairman of the

CHARTERED INSTITUTE OF

of London RICS branch.

Durham.

ARBITRATORS.

TORS' COUNCIL

LOGY AND PSYCHIATRY.



with EMI Leisure Enterprises and EMI Records before becoming managing director of HMV shops in 1979. From there, he moved to Abbey National, initially as general manager, finance. He joined the board in 1989, and it was on his watch as finance director that the conversion

to plc status was made. Anything but a typical Abbey man, colleagues record that his office is renowned for its collection of rock memorabilia alongside toy soldiers. He earned the nickname "squirrel Tyrrell" for his cautious nature, whilst gaining a reputation for his intellect and command of detail. Harley, a less extrovert fig-ure, joined Abbey in 1977. His

career pattern is what one insider describes as "a super example of horizontal progres-sion". He has worked both in head office as group financial controller and in the regions as, first, finance director and then, operations director on the retail side. The current finance director

at LIG. David Harbut, 55, announced a year ago his intention to take early retire-ment. Tony Butterworth, LIG chief executive, indicated Tyrrell would have been attracted by the multinational nature of LIG's operations. Colleagues assumed Tyrrell's move to LIG meant his sites were targeted on the chief executive's seat.

## dreaming spires

James Arnold-Baker, head of BBC Enterprises, is to be the next chief executive of Oxford University Press.

Arnold-Baker has been in charge of all commercial operations of the BBC - from books and magazines to the sale of programmes abroad - 🕏 for the past seven years. Before that, he was a marketing executive at Fischer Price toys.. The BBC executive simply

saw an advertisement for the Oxford job and applied. "It's a very exciting opportunity," said Arnold-Baker, whose BBC contract does not

expire until September. "I have built a nice little business (at the BBC), but now it's time to move on," said Arnold Baker, who is also a member of the BBC board of

He believes there are real similarities between the BBC and Oxford University Press. Both combine public service and commercialism.



■ Tony Hales, chief executive of Aliled Lyons, (above) has been appointed vice-chairman of the CBI's NATIONAL MAN-UFACTURING COUNCIL ■ David Gordon, chief execu-

tive of ITN, has been appointed a trustee of the TATE GAL-LERY. ends in June. He replaces Norman Richardson who is to David Clarke, technical become chairman of the director of Forte, and Jill Morgovernors of New College, ris, Safeway's company microbiologist, have been appointed ■ Michael Ferryman has been to the ADVISORY COMMIT-TEE AND STEERING GROUP elected president of the LON-DON MARITIME ARBITRA-

ON THE MICROBIOLOGICAL SAFETY OF FOOD. Angus Clark, chairman of Newmarket Foods, a Sainsbury's subsidiary, has been appointed president of the



executive designate of the SPASTICS SOCIETY. ■ Sir Bryan Nicholson, chair-man of BUPA and presidentelect of the CBI, has been appointed a deputy chairman of the FINANCIAL REPORT-ING COUNCIL. ■ Jim McMichael-Phillips has

been elected president of the DAIRY TRADE FEDERATION. Marion Poole, formerly secretary and registrar of the Chartered institute of Patent Agents, has been appointed then first general secretary of The NATIONAL CONFER-ENCE OF FRIENDLY SOCIET-

Tony Mallin, vice-chairman of Hambros Bank, is appointed chairman of the FINANCE & LEASING ASSOCIATION. Kathleen Demitres, md of Harley-Davidson UK, has become a director of the MOTOR CYCLE INDUSTRY

ASSOCIATION. Richard Pugh, technical director of Tesco, has been appointed a member of the



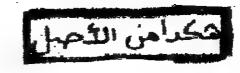
executive committee of HORTI-CULTURE RESEARCH INTER-

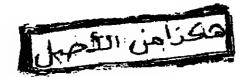
NATIONAL. Duncan Lawton, deputy chairman of BRITISH VITA, (above) has been appointed High Sheriff of the County of Greater MANCHESTER. Ron Amy, group compensa-

tion and benefits director at Grand Met, has been elected chairman of the NATIONAL ASSOCIATION OF PENSION FUNDS.

POLOGN,

Peter Long, chief executive of Bowater's industrial packaging division, has been appointed chairman of the BRITISH PIBREBOARD PACKAGING ASSOC-IATION.





oel Coward once wrote an acerbic lyric about people's behaviour away from Belgravia. In Bad Behaviour the place is Hampstead, Belgravia's gipsy sister, and people's behaviour there, as depicted in Les Blair's brilliant improvised comedy, is colourfully and wittily appalling.

"Twas often thus, of course, in Hampstead: a place known for its searing struggle between yuppification and Bohemianisation. Take town planner Gerry and his wife Ellie (Stephen Rea, Sinead Cusack): a gentle, cultured, unkempt couple who fall out with casual acquaintance Howard Spink (Philip Jackson) when he, Howard, proves a heartless spiv with a cordless telephone. H. goes around offering "free advice" on building firms and then charging a three-figure consultancy fee plus VAT. Even the builders he uses hate him. They are the Nunn Brothers, identical cockney twins played by a

never in the same shot Phil Daniels.
Other walking wounded of NW3 include neurotic single mum Jess (Clare Higgins) and Jess's permanently shellshocked daughter Rosie (Emily Hill). Plus a sea of children, casual friends, a dog or three. But the wonderful thing about this film, which resembles a Mike Leigh comedy notched up half a social class by Alan Ayckbourn, is that the canvas never seems overcrowded.

Gerry and Ellie are the still centre of paralysed social mobility: a liberated couple who dream of movement but cannot decide on up, down or sideways. In the meantime their bathroom is a prey to the Nunn Brothers' drills and chisels; their sitting-room fills up with the mad, bad and dangerous, a surgery for the emotionally maimed; and out-side, the frightful Howard roams the land using his Cellnet as an instrument of torture.

Escape is urgent for everyone, even Jess who wants to clear off for a weekend of spiritual uplift. ("It's a Buddhist monastery in Hemel Hempstead and you have to book"). But this being North-west London, escape only ever takes place in the mind: along with several other healthy human activities - sex, murder, revenge - that should get out more but in Hampstead keep vanishing up cerebral cul-de-sacs.

Director Les Blair, who began as an editor-producer for Mike Leigh (Bleak Moments) and then shaped improvised tele-gems like Newshounds and Honesi Deceni And True, finds a perfect comic rhythm for this social-satirical foxtrot. Slow, slow, quick, quick, slow, with sudden shifts to manic overdrive (Howard) or Celtic narcolepsy (Gerry).

Though the whole cast is a joy, we must pick out the mophesded charm and beatific distractions of Stephen Rea. He looks like an overgrown sheepdog; he acts as if he has just got out of bed and wants to go back; and even his hatred of the Irish-hating Howard has a frazzled illogic. "Just knock off the references to racial origin, you big limey bastard." Bad behaviour as inventive as this can give good behaviour a bad

Gustave Flaubert wrote a famous novel about bad behaviour and named it after his culprit-heroine. Claude Chabrol's film of Madame Bovary sallies forth once more to the blighted marriage bed. the dreams of romance, the horrors of

Here is one of the few Jacobean plays



The magnificent Isabelle Huppert as Emma in Chabrol's version of 'Madame Bovary' Cinema/Nigel Andrews

## Bad behaviour made good

uge first in adultery, later in arsenic.
The magnificent Isabelle Huppert plays her as a chalk-faced sphinx with saucer-wide mouth and eyes prone to sudden shock or crimson-rimmed tears. This woman has something worse than ennui: spiritual asthma. You believe she is suffocating in the loving, boring arms of Charles (Jean-François Balmer); that infidelity is an adventure as heady and unreal as those fictional passions she has read; and that shopping her way to bankruptcy is for Emma a way to turn invisible emotion into hard, clinking

Ten out of ten for Miss H. But around her the film is Bovaryesque in the wrong way. Instead of the crisp-edged satiric pessimism we expect from Cha-brol - who used to light the edges of his scripts in films like Le Boucher and La Femme Infidèle and watch the smoke get up our eyes and noses - here is a TV-style costumer as stuffy as it is static. The camera stands on one side of the room; the characters on the other and the Great Dialogue (taken verbatim from the book) flaps over as regularly, ineluctably as an airport departure

Sometimes the blood quickens - how could it not in a 2%-hour film? The tragedy of Justin's foot has the right curdled horror; and later Chabrol catches the breathless desperation of a life lived between small town and large town, between small lie and larger self-deception. But mostly this Mador Bovary is game, set and match to Mile Huppert, her victory made somewhat hollow by the fact that there is no one the other side of the pet.

Damny DeVito is everyone's favourite Dad in Jack The Bear. We know this 19th century French provincial life: all the images of bygons American subur-those things that made Emma take ref-bia (Oakland, California, early 1970s) gain-basement bugaboos.

BAD BEHAVIOUR (15) MADAME BOVARY (PG) Clande Chalmol JACK THE BEAR (12) Marshall Hershkowitz

BEING AT HOME WITH CLAUDE (18) Jean Bain

COP AND A HALF (PG) Henry Winkler

VACAS Julio Modern

sigh with golden-lensed recall. De Vito, who hosts a late-night TV horror show, is the life and soul of the neighbourbood and at home acts the perfect emcee whenever his young son (Robert J. Steinmiller Jr) - whose voice narrates the film - brings home a blushing

"He was an artist" coos Sonny's voice-over on one such night; "what he was creating was the perfect evening." What director Marshell (thirtusometh-ing) Hershkowitz and writer Stephen Ilian create, adapting a novel by Dan McCall, is 98 minutes of consummate schmaltz. There has always been an attraction, like opposite huse on the colour-wheel, between picket-fence tweeness and Gothic menace. (See David Lynch's *Blue Velvet*). But here the theme of innocence under threst, from the playtime gore of DeVito's TV show to the flesh-and-blood fears prod-Nazi delendout (Jaita 201 us so. It goes "Plinky plink plink" while ise, becomes an ever more contrived contest between boyhood bliss and bar-

Being At Home With Claude begins as a movie but soon stiffens into the stage play, by Rene-Daniel Dubois, on which it is based. We open with a nerve-shredding montage of sounds and images: groans of seeming human pain heard over black-and-white shots of a cityscape; blurry, scarce-decipherable close-ups of two men making love; a wine-glass and knife shuddering off a kitchen table; a splash of red blood across a fridge door.

Nasty but compelling. Thereafter, though, director Jean Baudin switches off the arc-lamps and switches on the stage footlights. A theatric two-bander unfolds as the supposed murderer (Roy Dupuis) is quizzed, endlessly, by the dogged detective (Jean Godin) in a single-room setting occasionally ventilated by flashbacks. Acted as if to the back of the gallery, the movie should empty the front stalls in no time, rolling back the audience as the minutes drag on.
For the rest, it is a clear choice

between Cop And A Half starring Burt Revnolds and Vacas starring a cow. The first is a Hollywood law-and-order comedy with an ageing star wearing a wig, a police uniform and a look that says "This was the wrong movie to choose for a comeback." TV ex-Fonz Henry Winkler directs. Vacas is a Spanish alle gorical fable about war, in which the eponymous cow stands for - for - well, for about an hour and a half.

Obscure, but please be patient. Debut director Julio Medem escorts us through over 60 years of Spanish his tory, delineating a Basque family whose members splinter off into history much like the bits and pieces that fly up from the early log-splitting contest. Or, indeed, like the movie's own style: a dancing, fizzing, restless Magic Realism senting Spain? God? Destiny? - offers a sure and sacral immobility, a largeeyed, large-viewed wisdom.

she is no less infatuated than he is. As

Nothing in the rest of the play quite stands up to this passionate affair, though the entire production is well done and packs resources into the Pit's limited space. The set, designed by Julian McGowan, is suitably sinister, lizards on the bronze walls and a bronze of Christ on the cross. Do not imagine that the dream sequence is a modern invention; it is there as a dumb show in the original text. For all its macabre background, this could be a modern psychological drama. You should see it before a great deal else in

In Repertory, The Pit, (071) 638 8891

Music in London

## South Bank looks North

As if in response to the Barbican's lavish "Tender is the North" festival of last autumn the South Bank has come up with a modest Scandinavian celebration of its own. Five concerts this week under the auspices of the Philharmonia focus upon new music, and upon the work of Magnus Lindberg in particular.

The presiding spirit is the Philharmonia's principal guest conductor Esa-Pekka Salonen, and the first two concerts on Monday and Tuesday also involved the Ensemble Inter-Contemporain; in the final programme next Saturday, which will include the British premiere of Lindberg's thrilling and ambitious Kraft from 1984, Toimii, the experimental group founded by Lindberg and Salonen, makes its London debut.

Born in 1958, Lindberg is now well established in the vanguard of European music. The BBC has brought a num-ber of his major scores to London - Kinetics was heard at the 1991 Proms, and a commission, Corrente II, was included in the Barbican festival last November; the London Sinfonietta premiered Marea in 1990 and introduced the lucid and carefully wrought Joy a year later.

Such pieces have demon-strated Lindberg's harmonic assurance and his knack for vivid invention, and the largest piece in the EIC's programme on Monday, UR from 1986, is similarly charged with striking gestures and confidently controlled long-range thinking. It was performed, though, without the computer-controlled synthesiser material which the score suggests is an integral part of the concept; the composer seems to have has resigned himself to this acoustic version, though the work itself seems impoverished as a consequence. But the potency of the exuberant Ablauf for clarinet and percussion from 1968 and the concentrated solo-

cello Stroke four years older

both seemed unimpaired in the forthright EIC performances. The newest piece on display, Corrente, completed last year and included in Tuesday's programme, suggests a new direc-tion in Lindberg's music. In turning away from the increasingly architectural harmonic structures of a work like Joy towards a more fluidly dynamic process, Lindberg sets up unbroken skeins of figuration which define and then revise their own hermonic

tant model, but though all the threads are pulled convincingly together in the final pages there seemed something disappointingly conventional about the working method, as though in looking for a fresh impulse Lindberg has sacrificed something of his person-

ality. Both concerts also contained works by Lindberg's contemporaries. Salonen's programme included his own Floof, a jokey and surreal piece of text-setting vividly sung by Sarah Leonard, and more substantially the UK premiere of Jouni Kainet concerto Carpe Diem!. It is an unremarkable piece, decking out a thoroughly traditional framework with modish clarinet effects, but the performance was memorable for the solo playing of Kari Kriikku, extraordinary in its seamles fluency, range of colour and virtuoso élan. In some hands even the dreariest material can be made compelling.

Andrew Clements Purcell Room and Queen Eliza beth Hall. Further concerts tonight and Saturday

## A zestful 'Belshazzar'

When the oratorio Belshazzar had its first performance in 1745, it was performed at the King's Theatre in the Haymarket, which Handel had booked for the winter season. A composer with a talent for enterprise was evidently an acceptable figure at the time perhaps Lloyd Webber has more iliustrious predecessors than one imagined.

For this performance in the Covent Garden Festival we were back on hallowed ground, in St. Paul's Church. The per-formance did not go the full distance in "authentic" performance practice, but it captured much of the zest, the strong dramatic atmosphere that is at the root of so many Handel oratorios, despite a penny whistle serenading us from outside in the plazza.

The conductor, Peter Ash, and the Covent Garden Festi-

score with few cuts (none at all are good for solo singers, probin the choruses, for which the New Company Choir proved ably rather flattering. Carol Smith offered a mix of period more than adequate). The main four soloists lost an aria each purity and deeper colours in the soprano music of Nitocris and couple of da capo repeats were snipped out. I doubt that many people complained when and Jonathan Kenny made a plangent counter-tenor Daniel; Michael Druiett was the bass they were sitting on hard Gobrias. All the solo numbers, however, were decisively trumped when Jean Rigby church pews. Audiences in Handel's day must have had "authentic" bottoms which were more resilient than ours. marched on as the general Cyrus to proclaim her victory with a display of proud and in any case, in its central act where Belshazzar indulges in energetic coloratura singing. his revels, this is a vividly-dra-With its small garden in which the audience can relax matised work. Handel sets the scene of the writing on the

during the interval, St Paul's Church makes a distinguished venue and the least I can do is wall with great skill, varying the pace so that he can build a get its architect right: he was power - the gift of a practised of course inigo Jones, not Wren, as I stated on Tuesday. opera composer. The central figure of Belshazzar is keenly Richard Fairman drawn, a young man, reckless

Covent Garden Festival spon-sored by the BOC Group

## Fassbaender at full steam

assertive, in Jamie MacDougall's forthright portrayal.

Anyone who has heard - no, experienced - Brigitte Fass-baender in full, black cry monday gave her a vociferous es. O Seele", one of Mörike's death-haunted prayers, and in Monday gave her a vociferous the radiant "Im Frühling". In ows what to expect when the Kraken wakes. Her mexso, which grows deeper with the years, can carry an extraordinary charge of pain: exposed but stoical, disabused, disdaining any kind of appeal for sympathy except naked candour. In the Jon Vickers stakes for heart-seizing vocal Affekt, she

is a top contender. That is a crucial factor in her recently developed Winterreise, but we might have heard it coming as far back as her memorable Rosenkovaller Octavian, with a young aristo's manly shyness and nervous dignity undercut, or underpinned, by those forcefully polgnant tones - or in her cool Capriccio Clairon, darkly suggestive beyond the meagre role Strauss composed. There is also tough, unwinking intelligence, and abrasive humour (she is a Berliner by birth). In

fact Fassbaender counts by

What she sang, however, was

a wide-ranging selection from Hogo Wolf's Mörike *Lieder*, to which her formidable powers are not ideally matched. She delivered almost everything in the first half forts or fortissimo as if she had come straight from Carnegie Hall and forgotten to adjust the volume. In that, her excellent pianist Jean-Yves Thibandet vied with her: it was hard to tell who was challenging whom for domination. As a result "Auf einer Wanderung", which is an iridescent vision, sounded as heartily down-to-earth as "Fussreise"

There was more light-andshade in the second half -though she belted out the rapt "Gesang Weylas" hymn, not a good idea. "Der Feuerreiter" was of course stridently dramatic but there were lovely measured nuances in "Denk"

expected that Fassbaender's closing sigh (Alte unmennbare Tage! - "Old, unutterable days!") should hint at memories of a really unspeakable kind, just as in "Nimmersatte Liebe" the light erotic play of Je weher, desto besser - "the more it hurts, the better!" would sound like raw masoch-

What hardly ever felt right was Thibaudet's pulse. Too often his address seemed unfeelingly swift and bright, hustling the songs along before they could cast any long shadows. Stifl, I look forward anxiously to hearing the new Decca CD of this programme for in the recording studio Fassbaender and her partner must surely have scaled down their dynamics, and perhaps even relaxed the pace.

**David Murray** 

outside Shakespeare and Jonson that has been repeatedly revived in the last few decades. It deserves to be so. Written around 1622, The Changeling by Thomas Middleton and William Rowley may have its deficiencies - a cumber-some subplot, for example - but it is also compellingly and unusually dramatic. Few productions could be better than that by Michael Attenborough, which has arrived at the RSC's Pit

Theatre in the Barbican from Stratford. At the heart of it is an outstanding performance by Malcolm Storry as De Flores, the man with a deformed face who is ready to kill in order to win his equally evil love, Beatrice-Joanna. Before we give the praise to Storry alone, however, we should recognise that there has been some fundamental rethinking. This Changeling is pres-

## Theatre/Malcolm Rutherford The Changeling

becomes in the end rather moving.

The technique is to make De Flores much less ugly than he usually his. True, he has a scarred, burned face, though much less so on one side than the other. But he also has charm, wit and intelligence. Played by Storry, he is physically a huge figure, but not without grace in his movements. He domi-nates the stage whenever he is there, and it is no surprise that Cheryl Campbell's Beatrice begins to fall for him. Indeed the central thread of the production is that you see this coming early on. Ms Campbell would surely not

ented as a warped love story, and demur if we say that this time it is De Flores rather than Beatrice who is the star attraction.

Where the pair of them differ is that De Flores knows what he wants from the start, and that is Beatrice at any price. She, on the other hand, thinks that she can use him as the servant he is. When he has killed her betrothed at her command, she remarks: "Why, 'tis impossible thou canst be so wicked...as to make his death the murderer of my honour!" But she learns fast. There cannot be one law for the nobility and another for the lower orders. They become partners in evil:

they die together, they are in a way as striking as Antony and Cleopatra or Romeo and Juliet. Only their world is

# INTERNATIONAL

### **■ BARCELONA**

Gran Teatre del Liceu Tonight, Sat, Mon: Jordi Savall conducts Gilbert Deflo's staging of Monteverdi's Orfeo, with cast including Mark Tucker, Jennifer Larmore and Alison Browner (412

Palau de la Musica Tonight: Maria Joeo Pires plays plano sonatas by Beethoven and Schubert. June 9: Daniel Barenboim conducts Chicago Symphony Orchestra (268 1000) Booking through Caba Catalunya (310 1212)

#### ■ BOLOGNA

Teatro Communale Tues: Michel Tabachnik conducts first night of Stravinsky double bill, pairing Roberto de Simone's Naples production of The Soldier's Tale with Les Noces, choreographed by Angelin Preliocaj. Six further performances till June 8 (529999)

#### ■ BERGAMO

Festival Pianistico Internazionale

di Brescia e Bergamo: Agostino Orizio directs an orchestral concert tomorrow at Brescia's Teatro Grande and on Sat at Bergamo's Teatro Donizetti. Alexander Lonquich gives Schubert recitals at Brescia on Mon and Bergamo on Tues. The festival ends on June 8 and 9 with plano recitals by Krystlan Zimerman (Bergamo: tickets 249631/

information 240140. Brescia: tickets

59448/information 293022)

#### **FLORENCE**

Teatro Communale Sat: Zubin Mehta conducts first night of Nuria Espert's London production of Carmen, with cast led by Denyce Graves, Luis Lima and Justino Diaz. Repeated June 1, 3, 6, 9, 11 (277 9236)

#### **■ GENOA**

Teatro Carlo Felice Tomorrow evening, Sat and Sun afternoon, next Tues and Wed: Mascagni's Cavalleria Rusticana and Poulanc's La voix humaine, with alternating casts including Giovanna Casolla as Santuzza, Simone Atalmo as Affio and Renata Scotto in the Poulenc

#### **■ LONDON**

THEATRE The Taming of the Shrew: New Shakespeare Company's summer season in the garden setting of Regent's Park opens tomorrow with previews of a new production by Toby Robertson, Press night on Tues. A second Shakespeare play,

Romeo and Juliet, follows on June 16, and the Rodgers and Hart musical A Connecticut Yankse opens on July 27 (Open Air 071-486 2431)

 Antony and Cleopatra: Richard Johnson and Clare Higgins head the cast in Shakespeare's great historical love story, in an RSC production directed by John Caird. Just opened (Barbican 071-638 8891) The Last Yankee: Arthur Miller's

subtle and touching four-parter about two American couples coping with disappointment and depression (Duke of York's 071-836 5122) Crazy for You: brilliantly staged Gershwin musical comedy (Prince Edward 071-734 8951) City of Angels: Larry Gelbart's top quality musical set in Los Angeles and the world of the private eye movie (Prince of Wales 071-839

 The Showman (Der Theatermacher): Alan Bates stars in British premiere of hilarious black comedy by Austrian playwright Thornes Bernhard, Til June 26 (Almeida 071-359 4404)

Arcadia: Tom Stoppard's new play directed by Trevor Nunn, with a cast including Felicity Kendall. The National Theatre's repertory also includes Arthur Wing Pinero's late 19th century comedy Trelawny of the Wells and Macbeth with Alan Howard (National 071-928 2252)

**OPERA/DANCE** Covent Garden Royal Ballet repertory consists of Swan Lake, Don Quixote and a new triple bill opening next Frl. Royal Opera has La boheme tomorrow, next Mon and Thurs, with Deborah Riedel, Kerita Mattila and Jerry Hadiey (071-240 1066) Colliseum ENO repertory consists

of II barbiere di Siviglia with Della Jones (final performance tonight), David Alden's acclaimed new production of Ariodante conducted by Nicholas McGegan with Ann Murray and Amanda Roccroft, and a revival of the Pountney production of Macbeth with Malcolm Donnelly and Kristine Clesinski (071-836 Owen Elizabeth Hall Sat, next

Tues, Fri, Sun: Mark Wigglesworth conducts David Freeman's Opera Factory production of Le nozze di Figaro (071-928 8800) CONCERTS

South Bank Centre Tonight: Ese-Peldo Seionen conducts Philharmonia Orchestra in music by Lindberg, Chopin and Sibelius, vith piano soloist Artur Pizamo. Tonight (QEH): Kenneth Sillito directs ASMF in Vivaldi and Bach. Tonight (Purcell Room): Joanna MacGregor piano recital, Tomorrow: Matthias Barnert conducts LPO in Fauré, Frank Martin, Elgar and Debussy. Sat: Salonen conducts Sibelius, Lindberg and Beethoven, with plano soloist Off Mustonen. Sun: Riccardo Muti conducts Vienna Philharmonic Orchestra in Fauré. Ravel and Beethoven. Sun (QEH): Tasmin Little plays Britten's Violin Concerto. Tues: Murray Perahia piano recital. Wed: Frankl, Pauk, Kirshbaum trio plays Tchaikovs and Shostakovich (071-928 8800) Barbican Tomonow: London Oriana Choir in music by Bernstein,

Gershwin and Orff. Sat: songs and

music from Stephen Sondheim's

Broadway shows. Tues: Christoph

Eschenbach is conductor and plane soloist with ECO (071-638 8891)

#### MADRID Teatro Lirico La Zarzuela Tonight

Sat, next Tues and Fri: Lamberto Gardelli conducts Elijah Moshinsky's production of La forza del destino, with Carol Vaness and Gluseppe Giacomini (429 8225)

#### MILAN

Teatro alla Scala Tonight: James Conlon conducts final performance of Luca Ronconi's new production of Weber's Oberon. Sat evening, Sun atternoon: Giordano's Fedora. Mon: Chorus of La Scala. Tonight at Teatro Lirico: double bill pairing Nino Rota's bullet La Strada with modern Italian choreographies (7200 3744)

PRAGUE The final week of this year's Prague Spring Festival includes a concert by Leos Janacek Chamber Orchestra tonight in Church of Our Lady of Tyn, a Czech Philharmonic Orchestra concert tomorrow in Smetana Hall conducted by Gerd Albrecht, a performance of Oskar Nedbal's ballet From Fairy Tale to Fairy Tale on Sat afternoon in National Theatre and a Prague Symphony Orchestra concert on Sat evening in which Maria Tipo plays Beethoven's First Plano Concerto. Slovak Chamber Orchestra gives a concert of Purcell. Handel and Tchaikovsky on Mon at Dvorak Hall, and the festival ends on Tues with Beethoven's Ninth Symphony conducted by Jiri Kout,

 For pre-booking and information about these and other events, contact Bohemia ticket agency, Na Prikope 16, tel 228738 and theatre box offices.

#### ROME

Testro dell'Opera Tomorrow, Sun, Tues (also June 5, 8, 10, 12, 15): La traviata with Giusi Devinu, Luca Canonici and Renato Bruson. Mon: Ghena Dimitrova song recital. Programme subject to cancellation or change at short notice (481 7003)

#### ■ STRATFORD

Two new productions join the repertory tonight. The Royal Shakespeare Theatre starts previewing The Merchant of Venice, directed by David Thacker, with David Calder as Shylock (Press night next Thurs). For the next two months, this production will alternate with King Lear starring Robert Stephens (next performances June 7 and 8). Tonight also sees the first preview in the Swan Theatre of Goldoni's classic farce The Venetian Twins, directed by Michael Bogdanov (Press night next Fri). Previews of Ibsen's Ghosts, directed by Katle Mitchell, start on Mon in The Other Place (0789 295623)

#### VENICE

Teatro La Fenice Tomorrow: Viadimir Delman conducts first night of Andrei Serban's production of Eugene Onegin, with Ana Pusar, Sergei Leiferkus and Neil Shicoff. Repeated on Sun and June 1, 4, 6, 8 (521 0161)

ARTS GUIDE Monday: Berlin, New York and Peris.

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Sky News: West of Moscow 1130; 2230 Sunday Super Channel: West of Moscow 1830 Super Channel: Financial Times Reports 1900 Sky News: West Moscow 0230; 0530 Sky News: Financial Times

Reports 1330; 2030

## The 'sick and tired' trade policy



ers will tell you that there is a single, overriding reason for the industry's plight – unfair

foreigners who exploit government subsidies and dump their models to gain market share in the US. President Bill Clinton's eco-

nomic team appears tempted by the same world view. Mr Mickey Kantor has frequently expressed the view, during his first few months as US trade representative, that foreigners must change their unfair trading practices - whether it is subsidies for Airbus or the labyrinth of non-tariff barriers which block US exporters from the Japanese market.

The US is sick and tired of opening its market and playing by the rules while foreigners twist the rules to keep US companies out. Moreover, abuse of the multilateral trade rules laid down by the General Agreement on Tariffs and Trade more than 40 years ago has brought the organisation into disrepute and eroded US faith in multilateralism.

This rationalisation of the ills besetting US trade - and of "realistic" solutions - takes a severe and carefully argued beating in a book to be published next month by Patrick Low, an economist in the World Bank's trade policy unit in Washington. "The greatest challenge of all in the trade sphere is not how to deal with the misbehaviour of foreigners, nor how to revamp the Gatt. It is how to confront the politics of responsibility avoldance at home, and to design and implement policy in the national

interest," Mr Low argues. Underpinning his case with an analysis of 70 years of US trade policy, Mr Low flags a growing danger of the US administration falling victim to the same forces that led in 1930 to the ruinously protec-

tionist Smoot-Hawley Act. "The dangers of pork barrel politics and unrestrained protectionism, from which Congress insulated itself [after Smoot-Hawley], have been allowed to creep back into the system," he argues. Section 301 of the 1974 Trade Act, which

TRADING FREE: THE GATT AND US TRADE POLICY By Patrick Low The Twentieth Century Fund Press \$24.95, 297 pages

punish unfair trading practices, allowed the US to pursue gains for exporters without having to provide offsetting market-opening reforms likely to anger protected domestic

The Trade Act marked the end of a 30-year period during which gains for exporters could only be negotiated multilaterally at the expense of protection for domestic manufacturers. Section 301 also gave legal standing to the concepts of "unreasonable", "unjustifiable" and "discriminatory" trade practices which underpin the "responsibility avoidance" practised so widely today.

According to Low, "responsibility avoidance" involves two tendencies: blaming problems in trade performance on "unfair" practices by foreign-ers; and disguising the US administration's role in setting up protectionist, market-sharing agreements. This has been done principally through vol-untary export restraint deals, 236 of which were implemented

Low argues that legal and procedural restraints on protectionist action have progressively been eroded since the 1974 act, leaving only the self-discipline of policy-makers as a safeguard for free trade. Even this self-discipline is being eroded as Congress has

chipped away at the powers devolved to the executive in trade policy, seeking to promote sectoral interests at the expense of national ones. Congress has withdrawn delegated authority, introduced more protectionist statutes, and even imposed instruments, such as section 301, which are inconsistent with the Gatt. It is adamant that domestic laws should override obligations under international trade laws

if the two should ever clash. "The US has been arming itself legislatively over the years in a way likely to make policy more protectionist and more confrontational interna-

in which trade restrictions can take effect with no one in perticular seeming to be responsible for them".

celebrated scru-

▲ ▼ ▲ spending is not strictly what the Americans

would call a zero-based review.

In other words, it does not ask if there would be a National

Health Service or state educa-

tion if we were starting in a

new country with a clean

sheet. But within roughly the

framework of existing institu-

tions, it is meant to ask fairly

fundamental questions about

coverage, methods and means

Less clear is the period of

time meant to be covered. The

main impact of any radical

decisions would be felt after

1995-96, the period covered by

present medium-term plans. As

for the coming two financial

attitude seems to be that any

savings would be welcome, but

no one is counting on too

much. In fact some unpopular moves may be required to

enable the government to stay within the ceilings for the pres-

ent three-year period which have supposedly been agreed

Meanwhile a lot of work is

being done on how best to mea-

sure the government's deficit. One of the stock subjects of

business indignation relates to

the absence of a proper public

famous Public Sector Borrow-

ing Requirement (PSBR)

resembles a confusingly com-

bined profit and loss and capi-

tal account. This seems to many trained in the private

sector a recipe for confusion.

The chancellor in fact prom-

ised in his Mansion House speech last October that the

first unified Budget to be pres-

ented towards the end of this

year "will be drawn up in a

way that makes a proper dis-tinction between current and capital transactions". He added

that this would underpin "the

government's commitment to

infrastructure investment in

the longer run". It will also

make the Budget deficit look

There are undoubted benefits

in presenting the public sector

accounts in as similar a way to

private sector ones as possible

and also in having the same

kinds of accounts for different

parts of public sector. Very

often however this reform is

people who do not understand

the fundamental differences

between government and busi-

ness. Sometimes the motive

seems to be to find a way of

reconciling calls for economies

in government spending in

out forward as a panacea by

smaller

by the cabinet.

of payment.

The result, he argues, has been to "divert policy debate away from domestic failings and competitive difficulties, and focus it instead on the trade policy behaviour of foreign governments and firms".

Low believes the solution does not lie in rejecting multilateralism, despite contrary claims of a growing body of economists in the US who argue that there is no option but to pursue managed trade arrangements. He insists that multilateralism is not out of date: "It was never properly tried in key respects. The system did not break down; it had never been applied."

The Gatt was "never complete", he argues. Key sectors such as agriculture and textiles were excluded from the outset. Laws that were inconsistent with the Gatt and which pre-dated the agreement were allowed to remain. Some policy areas, such as subsidies, were never included. The agreement's failings are not due to the fact that multilateralism has been tried, and found wanting, but that a "conspiracy of non-compliance" from the earliest days of the Gatt

left it fatally flawed. Low also warns against learning false lessons from the short-term "success" of managed trade deals such as the US-Japan semiconductor accord. He describes them as a "source of trade instability and

political tension". Only a third of 301 actions from 1975 to 1990 had the desired result, he says. Many triggered retaliation, and carried a high cost in terms of trade friction. They are thus unlikely to achieve any more than short-term gains, with foreigners "reluctant to co-operate, resenting the unilateral, intrusive and accusatory flavour of designations". If the Clinton administration

planning to pursue managed trade options, it should first recognise the trends revealed by Low, and then address the potent case he makes in favour of "trading free".

He haves

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David Dodwell general with more spending in

## ECONOMIC VIEWPOINT

## What the Budget could look like

**By Samuel Brittan** 

Public sector balance: towards a new presentation

والمراجع وا	. :
1983-94 estimates (Ebn)	
Current expenditure	262.4
Current receipts	232.0
Current delicit	30.4
Capital spending	24.8
Financial deficit	55.2
Surplus on financial transaction".	5,1
Public sector borrowing requirement	50.1

areas in which the critic happens to be interested. The best way to see both the value and the limitations of a

separate public sector capital account is to try to do so one-self on the back of an envelope. Such an effort can never hope to anticipate exactly the distinctions that Treasury officials will come up with next November, when moreover fresh estimates of revenue and expenditure will be available But it should reveal the main

People do not understand the differences between government and

business

The tables in this article are simple rearrangement of the last table (7.9) in the "Red Book" accompanying the 1993 Budget. In the Red Book itself the items are just classified as receipts or expenditure. Here the spending items normally regarded as capital by national income statisticians have been segregated from the others. (The expenditure "reserve" has also been divided between capital and current.) There is, however, a reluctance in the Treasury to apply the same treatment to £7bn of so-called capital receipts. This is a category covering items such as capital gains tax which is indexed and is not really levied

on capital. If we apply the suggested procedures to the estimates already given at the time of the March Budget, the result is to divide up the envisaged £50bn PBSR into a current deficit of about \$30bn, a capital spending total of nearly \$25bn and an offsetting inflow on financial transactions of some £5bn. (The latter are mainly privati-

sation receipts.) The Treasury has in some recent publications shown a higher figure - of about £30bn - for public sector asset cre ation. This has been reached not only by ignoring the reve-nue side, but also by adding in investment by the nationalised industries and other public corporations. This is cheating. For, in a reform introduced by a Labour government in the 1970s, nationalised industry was excluded from the public spending total, so long as it

was self-financed and not a charge on the Treasury. At between 51/2 and 6 per cent of GDP, the UK public sector current deficit shown in the table would be substantially lower than the 8 cent of GDP represented by the PSBR; and it is more plausible to believe that most of the lower figure is

Gross domestic fixed capital formation" Increase in stocks Capital grants to private sector 5.3 Share of expenditure reserve Total capital spending - Net of 20.25m of capital transfer

Draft public sector capital budget

1993-94 estimates (Chri

tional Treasury official is to say that the whole PSBR has to be financed irrespective of how one chooses to divide it up. indeed the chancellor next November may well try to have it both ways - to emphasise the lower current deficit to the financial markets while telling spending departments that the whole PSBR has still

to be financed. Indeed there are ways in which official estimates of public capital expenditure over-

There is an almost unlimited number of respectable ways of defining the **Budget deficit** 

estimate the amount of spending for longer-term productive purposes. How many of those who clamour for more capital and less current spending realise that nearly £60n of military spending counts as capital? On the other hand the payments of salaries to science teachers counts as current expenditure.

The current-capital distinction is not nearly as illuminating here as it is in the private sector. The basic point is that government lacks the simple

future cash return to decide what really is its capital spend-ing. So the division between current and capital is much more a conventional demarcamore a conventional demarca-tion between payments for resources which are used up in a single year and those which a single year and those which leave buildings, machines or stocks of equipment behind. There is indeed an almost

unlimited number of respectable ways of defining the Budget deficit. But to pursue them all is not consistent with continued sanity. Here, however, are a few hints.

You can reduce the deficit further by asking for it to be estimated on an inflation adjusted basis. Even at current relatively low rates of inflation, a large proportion of govermment interest payments can be regarded as compensation to debt holders for the falling value of money. Moreover, the government has never seen fit to publish a cyclically adjusted deficit which would eliminate that part which is just the reflection of recession...

If, on the other hand, you think the tentative separation of capital from current speading in the tables lets the government off the book too lightly, try insisting on measuring capital spending net of depreciation. If you do that, you will be back not far from the original PSBR figure. If you want to make deficits look larger still, add on something for the unfunded social security liabilities in the next can-

tury as the population ages. In the most highbrow circles of all the key concept is the primary deficit before debt servicing. The point is that a sufficient primary surplus is a pre-condition for reducing the level of national debt or its ratio to GDP. The primary halance was indeed mentioned by Mr Portillo last week - the first time by a British Treasury minister.

Its application produces bewildering results. The UK has the highest primary deficit among the industrial countries. On the other hand, Greece, Italy and Belgium normally regarded as fiscal basket cases - emerge with quite large primary surpluses.

What this means is not that the UK is worse off but that countries such as Italy are in a fiscally bad way and gradually getting better, while the UK starts off from a pretty sound budgetary position but is grad-

In the end experience shows how large a deficit a government can afford and if that is too large no amount of playing with definitions can help.

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

## EBRD's role crucial, but review necessary

Sir, Your continued attacks on the management of the European Bank for Reconstruction and Development, and on the "lifestyle" of its chairman ("High fliers face internal scrutiny at EBRD", May 24), risk undermining the effectiveness of an institution which is making an invaluable contribution to the economic development of the countries of eastern

As someone who has had quite a few years' experience in doing business in the area both before and after the collapse of the communist of such an institution has provided a crucial cornerstone for the structuring and provision of the necessary long-term debt and capital that the economies

of eastern Europe require. culties of doing business in the area are well known and all would concur with the need for a supra-national body to co-ordinate and establish a basis for an investment philosophy that will contribute long-term economic growth.

From the outside, the processes of the EBRD might appear to be cumbersome and slow, but the fact is the bank is staffed by highly qualified professionals who understand the business environment, the applicable products and the credit criteria which must necessarily underpin the provision

You may well feel that some of the FT's readers are interested by the colour of the marbie, the use of corporate jet services and the cost of Christmas parties, but I have no doubt that many others are more interested in what the EBRD has done since its creation a mere two years ago. David A J Burns,

From Mr L S Davies.
Sir, The EBRD was estab-

lished to "foster the transition towards open-market oriented economies and to promote private and entrepreneurial initiative in the countries of central and eastern Europe". Discussion on the merits of its in-house expenditures should not be allowed to detract from the need to review its performance towards achieving this objective.

A year ago this week, the European Commission hosted a conference designed to review barriers to business investment in eastern Europe and to identify solutions to the problems. Research had shown that more than one-third of potential investors felt the risk/profitability were unacceptable. A further 20 per cent could not get finance. In this climate, the EBRD could clearly play a useful role. In practice, the bank's crite-

range of "exceptional" costs for activities such as legal and financial services and for management training, which are bound to reduce its viability. If the bank fails to support these and continues to require commercial viability, it will struggie to convert the "commitments" to "disbursements". What are desperately needed are projects such as the VW/ Skoda venture in the Czech

the gap. Any project for east-ern Europe will need to bear a

Republic which, although they may not produce much profit in the short-term, will certainly act as catalysts to move cash around the economy. The EBRD could pump-prime these types of activity by redirecting some of its planned

in-house expenditures into supporting the aforementioned exceptional" costs. L S Davies

I Pinfold Road, Solihull, West Midlands

## Vive la reine

Sir, To have stated in your story "Queen to be first UK monarch to meet Irish presi-dent" (May 22/23) that "even the French have been known to wave flags for her" will, I hope, arouse the fury of many French readers who, like myself, are enthusiastic admirers of the Queen.

The devotion of the French public to the British royal family is without equal outside

65 rue de Javelot 75645 Paris, Cedex 13,

### Macbeth gripping, not a mess

From John and Barbara

Sir, Recently one of your correspondents wondered if your critic had actually been to the event he was reviewing. We certainly wondered whether we had been to the same production of Verdi's Macbeth at the Coliseum which Richard Fairman reviewed ("Macbeth in a mess", May 22). His out-right rubbishing of this pro-

duction left us wondering what we were in for, and led to us offering one of our party his money back before we set out. in fact, we all enjoyed Mac-beth enormously; the produc-

tion was gripping and inven-tive; Kristine Ciesinski was as theatrical a Lady Macbeth as you could hope to find; Verdi's brass writing had us on the edge of our seats; and the chorus was as lusty as you could wish. One of us had recently

ria for project approval mean it

and thought there was no com-Darison. Good luck to Poultney in his new job. We only hope his successor can do as well. As to your man Fairman, eye of a newt for him.

seen the Covent Garden Otello,

John and Barbara Richardson, 156, Turney Road, London, SE21 7JJ

## More to come

From Mr George N Harvie. Sir, I read with interest the rticle on welfare benefits by Julian Le Grand (Personal View, May 24) in which he states: "We estimate that over their lifetimes people pay for between two-thirds and threequarters of the benefits they receive from social security, education and health.

I look forward with even greater interest to a follow-up article explaining who pays the

George N Harvie. Lower Branscombe,

Tiverton, Devon EX16 4NZ

## Lloyd's Names should have guarantee of profits accruing to them tion", May 25). It is a little | Names and will require a two-

From Mr Claud Gurney. Sir, Messrs David Rowland and Peter Middleton (chairman and chief executive respectively of Lloyd's) are to be congratulated for admitting frankly that there has been massive deception, incompetence and worse at Lloyd's over the last 13 years. No one should be surprised to hear that the only money that Lloyd's has belongs to the Names and they have no magic cheque book hidden away ("Lloyd's urges Names to settle

grievances through negotia-

more worrying to hear that they still have no proper information on which to manage the business - maybe underwriting should stop until they do have such information.

They both spent much time explaining how they represented all Names, but if they really do then they should follow the advice of the EGM2 which follows on naturally from this statement:

(1) They should put together a package which will subse-quently be voted on by all thirds majority to be implemented (2) They should give all Names

a shared and common interest in building a profitable future for the society. The only way to do this is to guarantee that 25 per cent of all future profits will accrue to the current Names equally. This is a small price for corporate capital to pay for the goodwill and assets of Lloyd's which belong to current Names and much less than they would have to pay to set it up from scratch.

The only asset that Lloyd's has left is the goodwill and name of Lloyd's. If they reckon that it can produce £900m in 1995 then it is worth around £18bn. This money belongs to Names and we must make sure that it is not given away to their friends. If they do not adopt this position freely then an EGM to be lodged on Friday will force it upon them Claud Gurney, chairman, EGM Initiative,

Little Chart,

large

's of

nan-

nd 16p

## An attempt to see the future

BRITAIN'S FIRST thorough review of science policy for 20 years will come as an anticlimax both to those who advocated a radical shake-up and to traditionalists who think the only thing wrong with the present system is a severe shortage of funds. There is no commitment to

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increase UK spending on research and development, which has slipped in comparison to other industrialised counties. Nor is there fundamental change in the "dual support system", by which funding for science is channelled primarily through the research councils and underpinned by gen-eral funds for universities.

More disappointingly, the white paper hardly touches the R&D activities of other government departments. A short and complacent chapter on the Ministry of Defence, which still accounts for almost half of public spending on R&D, offers no ideas on switching resources to the civil sector as military research runs down.

Yet the review gets some things right. Splitting up the over-extended Science and Engineering Research Council should give new focus to its activities. The Advisory Board for the Research Counclis - a confusing and secretive mix of in-house policy-making and outside advice - deserves to be abolished. The new director-gen-eral of research councils, advised by independent experts but located firmly within the Office of Science and Technology, has a much clearer function. Another

welcome change is the replace-

Science and Technology - which has often seemed to do little more than produce worthy reports that everyone ignores - with a more high-powered Council on Science and Technology chaired by Mr William Waldegrave, the minister responsible for science. But the white paper's most sig-

nificant proposal is "technology foresight", a process already followed in a number of countries for achieving a better match between publicly funded research and the needs of industry. The aim should not be to pick winners in the form of specific projects but to identify technologies or areas of research that satisfy three criteria: real scientific promise; availability of strong research groups to do the work; and companies willing and able to exploit the outcome of the research. There is no point, for example, in the government spending £10m on a laser research programme, however exciting, if the UK has no opto-electronics industry to make lasers.

However, the foresight exercise can work only if a wide range of experts from science, industry, finance, consumer research and government work together, Companies will have to show more commitment to relations with government R&D managers. And then they must be ready to pick up the results of priority research pro-grammes. In the end, the attitude of industry will determine whether this white paper succeeds in harnessing Britain's scientific

## Europe's refugees

GERMANY'S MOVE to tighten Poland to this effect, and is seek restrictions on the flood of asylum-seekers is, in its own terms, wholly understandable. Last year this flood amounted to 440,000 people, plus at least another 180,000 coming from Yugoslavia outside the asylum category. Because of Germany's past, the revision of the very liberal constitution in a more restrictive direction raises powerful popular emotions, as tes-tified by the demonstrations outside the Bundestag yesterday. But no democratic country can be expected to accommodate an unrestricted torrent of refugees, social tensions as well as unac-

ceptable budgetary costs.

But if Germany's constitutional reform is a perfectly understandable emergency reaction to a crisis, it is not in itself a solution to the problem. Under the new dispensation, the German authorities will be able to expel most asylumseekers who arrive across land frontiers, on the grounds that their sayium requests should first have been dealt with by the authorities of these "safe" neigh-

bouring countries. This principle is an extension of the Dublin agreement between the 12 EC countries, Wherever an asyhum-seeker first sets foot in the Community, that is the country which is responsible for examining, and either granting or denying, his asylum request. The German government is now seeking to extend this principle to other, non-Community countries; it has

ing a similar agreement with the Crech and Slovak republica. A restrictive reform of the Ger-

man constitution is not by itself a solution, however. First, asylumseekers will be at least as serious a problem if they are expelled to Poland or the Czech Republic. Secand, many of those now in Ger many who fall to secure asylum status may secure the right to stay on other, humanitarian grounds. Third, Germany's refugee crisis is only the most acute

aspect of a Europe-wide problem. Most west European countries sure, and many of them are seeking to tighten the rules to make their frontiers more nearly watertight, Britain is in the process of passing a more restrictive version of its asylum law. France is back-ing out of the Schengen open frontiers agreement, embarking on a systematic police search for illegal foreigners, and restricting access

to French nationality.

Exclusion is an understandable emergency reaction. It needs to be followed by more constructive policies, on a Europe-wide basis, for dealing with the reality of large numbers of people who will not disappear because they are denied refugee status. Europe must afford reasonable humane protection for those manifestly in need of it whatever the definition. But it all underscores the importance of Europe taking more energetic measures to help stabilise countries from which the refugees

## Private projects

finance initiative could transform the way in which important capital projects are carried out in the UK, Mr Norman Lamont told a conference organised by the Confederation of British Industry yesterday. If true, this would not be before time. The comments of Mr François Mitterrand on the contrast between the two rail links to the Channel tunnel have merely reminded the public how urgently this transformation is needed.

The new rules, announced in last year's Autumn Statement, overturned the Treasury's longstanding view that the private sector should not undertake anything the public sector could, in principle, do more cheaply. Any project can now go ahead, provided government contributions give value for money to the taxpayer, private participation in joint ventures is usually decided on the basis of competition, and substantial risk is assumed by the private sector. The government is looking for three kinds of private involvement in infrastructure: development and implementation of projects in

the private sector, greater use of operating leases, in which the private lessor retains some responsibility for managing the asset; and joint ventures between the private and public sectors, such as Lon-

There are two reasons for wanting private involvement in infrastructure. The silly reason is to evade constraints imposed by limits on sector horrowing. The sensible one is to improve efficiency.

Private finance is not, insists the chancellor, about evading public expenditure controls. He protests too much. One reason for the initiative is indeed to evade such arbitrary constraints. The problem is not simply the Treasury's past unwillingness to distinguish capi tal from current spending. It is the failure to go beyond annual cash flow accounting. What is needed is a public sector balance sheet, in which increases in assets can be set against liabilities. The chief justification for

greater private sector involvement is, however, in Mr Lamont's words, to harness "private sector skills - in design, in construction and, above all, in management". This is to be distinguished from pricing. Charging users does not entail private ownership and private ownership does not entail charging individual users.

What is essential is private sector risk-taking. Otherwise, hopes for greater financial discipline will be disappointed. The government must not only state that financial failure will lead to liquidation, but stick to that hard line in practice. The government's initiative for private finance is to be welcomed, mainly because it may lead to bet

ter projects, though private participants must face risks if this is to happen. Subject to that proviso, Howard Davies, director-general of the CBI, was right to tell the government to get a move on. The new ideas can be beneficial, but not if they are stuck in the Treasury's

pending tray.

he Balladur government yesterday unveiled its privatisation plan, designed to roll back the frontiers of state involvement in the French economy and, just as important, to help finance recovery and the struggle against

rising unemployment. The list of 21 companies to be sold off is impressive. Twelve – notably the two big banks, Crédit Lyonnals and Banque Nationale de Paris; the three insurance companies, UAP. GAN and Assurances Générales de France; and Rhône-Poulenc, Elf-Aquitaine, and Péchiney, in chemi-cals, oil and metals, respectively -were scheduled for privatisation in 1986 when the conservatives were last in government, and Mr Edouard Balladur was finance min-ister. Rescheduling them for sale deals with business left unfinished when the stock market crashed in 1987 and the Socialists won victory

But the 1993 list puts nine new companies on the auction block. Three are what earlier French governments regarded as sacred national institutions - the motor company Renault, Air France, the state's flagship carrier; and Aeros-patiale, part maker of Airbus and France's nuclear missiles.

The eventual passage of all these companies into private hands would radically reduce the size of what is still, after Italy, Europe's biggest public sector. The privatisation process would also probably be irre-versible by any future socialist gov-ernment - not only on grounds of cost. At yesterday's cabinet meeting, which approved the draft priva-tisation bill, President François Mitterrand voiced the same "public interest" reservations he had in 1986 when he temporarily blocked the privatisation decrees.

This time, the government faces no political problems in getting pri-vatisation through parliament. But Mr Edmond Alphandery, the economy minister, has no delusions about the scale of the financial chal-lenge shead. Whereas the last French privatisation drive began in the buoyant environment of the mid-1980s, the new phase is being launched at a far less favourable time, when the French economy is in recession, the Paris stock market is volatile and some of the candidates for sale are under intense financial pressure. The critical question for Mr Alphandéry is whether current market conditions

will impede his privatisation plans. However unfavourable the timing, the new French government has little option but to proceed. Indeed, as became alarmingly clear this week, getting a large amount of cash from a successful sell-off of state assets is the only way it can both restrain public borrowing and finance economic recovery. In Alice Rawsthorn and David Buchan on a privatisation plan designed to deal with unfinished 1980s business

## French left-overs on the block



announcing the sale of FFr40bn worth of "Balladur bonds" - which will pump a total of FFr26bn in new money into unemployment programmes, public works and housing the government said it still planned to keep the 1993 budget defcit at FF1317bn. This means, as Mr Alphandery spelled out vesterday, that it needs to get the entire FFr40bn equivalent of the special bond issue back this year in privatisation proceeds.

The critical question is whether the stock market will be able to absorb the stream of newly privatised French companies. At first glance the omens are bad. The last centre-right government soid off FFT120km of public sector companies in 29 fictations between spring 1986, when it came to power, and the market crash in October of the following year. The success of those share sales was fuelled both by the dynamism of the Paris stock market and by a keen appetite among international investors for the then-

novel French privatisation stocks. Times have changed. The Paris market is in a fragile state. The CAC 40 Index of 40 leading compa-

Twenty years ago, those entering

the City from Oxbridge or the army

became stockbrokers. But by the

middle 1980s, any lingering sense that working in the Eurobond mar-

ket was inferior had been cast off.

The influx of US banks and securi-

ties houses brought a spirit of meri-tocracy to the City, plus competi-

tion between houses, which fuelled

ing of the so-called "star" system of

prominent bankers who once held

sway over the market and were

"It has moved from a market

dominated by individuals to a mar-

ket dominated by companies," says

Mr John Langton, chairman of

isms, who began his career in the back office of Strauss Turnbull, a

brokerage house.

Today, there are no personality cuits, and nights at Annabels have

been curtailed by the demands of 7am starts. Traders who used to

work on gut instinct do not make a

move without running charts

credited with its growth.

innovation but squeezed profits.

nies was virtually static in 1992 and has mustered only a slight increase from 1.858 at the end of last year to 1,890 yesterday. The French economy which, until recently, was more resilient than its European counterparts, is now technically in recession. The government estimates that gross domestic product will fall by 0.1 per cent this year.

Despite this gloomy scenario, international investors have remained relatively positive about French equities. Warburg Securities estimates that although the Paris Bourse accounts for 28 per cent of the value of continental European stock markets, it represents about 26 per cent of a typical continental portfolio. However, international vestors have recently been adding little to their French portfolios because the strong franc makes French shares more expensive.
International investors might also

be deterred by the French government's efforts to "protect" the newly privatised companies. Mr Alphandéry has revived the noyoux durs concept favoured by the last centre-right government of encouraging long-term investors to take

strategic stakes in in former state companies. He has, though, said such shareholder groups will be open to foreign companies, thereby scrapping the 20 per cent ceiling that limited foreign stakes in the previous privatisation round.

He has also extended the "golden share" system, whereby the govern-ment can block bids in strategically important groups. Whereas the 1986 "golden share" lasted for five years, its 1993 version will have an indefinits lifespan. This is the govern-ment's price for extending privatisa-tion into the defence sector, with Aérospatiale and Thomson, the electronics group, up for eventual sale.

"There is still an appetite for pri-vatisation stocks, as the success of the recent Spanish issues has shown," said Mr Joe Hall, head of European equities at Warburg. "But investors are much more discerning about what they will buy now than they were in the mid-1980s. The French government will have to be careful to present the right companies at the right price, unless it is willing to risk selling recovery stocks at a discount."

A number of privatisation candi-

dates fall into the "recovery" category. The Crédit Lyonnais banking group lurched into the red in 1992 and earlier this month warned of difficulties in France this year. UAP and GAN, the insurers, suffered sharp falls in profits last year. The Bull computer group made a loss in 1992, as did Air France.

The consensus among observers is that the first candidates for sale will be more robust industrial con-cerns such as Elf, Rhone-Poulenc and Pechiney. The likeliest finan-cial contenders are AGF, the most resilient of the insurers, and BNP which is seen as a safer bet in bank ing than Crédit Lyonnais.

Both the industrial and the finan-

has sometimes accompanied state ownership: for instance, BNP reluctantly had to take a stake in Air France, and Péchiney had to acquire a stock market quotation for its international operations in order to make foreign acquisitions. The Paris Bourse is also hoping for an end to its traditional liquidity problem. Mr Alphandery has already proposed to abolish investment tax on small investments, and yesterday's bill encourages employees to buy shares in their newly privatised companies. His overall goal is to persuade French investors to switch some of the FFr1.200bn now invested in money market

t is very doubtful whether this second wave of privatisations will have the same impact on the Paris marketplace as the first wave. The number of individual owners of shares rose from 1.7m in 1986 to 6m two years later. Such an increase would be hard to repeat.

But, regardless of what happens on the stock market, yesterday's bill probably marks a turning point in French industrial policy, particularly for those companies, like Bull or Air France, which may be distant privatisation prospects. In the short and medium term, "the way will be open for them to seek industrial partners which in many cases are a condition of their survival", Mr Alphandery said. Privatisation is also likely to have

a knock-on effect on the "monopolies" such as France Telecom, Electricité de France and Gaz de France. As monopolies at least at the retail level, these utilities are to stay within the state sector, but the industry ministry plans to introduce competition in some of their activities. Although this privatisetion is not as far-reaching as those in the UK under Mrs Margaret Thatcher, one day France's utilities might and up in the private sector. Mr Alphandery has said that any company "in the competitive sec-

#### The Eurobond market has been transformed since its launch 30 years ago, says Tracy Corrigan

Dull can be dynamic

#### n June 1968, Autostrade, an Italian financing agency, issued \$15m of bonds through S G Warburg, the UK mer-chant bank, to build a motorway. way, it got in the early days." Since then, compenies, banks, gov-ernments and agencies have borrowed more than \$2,000bn on the Eurobond market, according to IFR

Securities Data, which tracks Eurohond lisues. Once a small offshore market

signed to circumvent regulatory barriers, the Eurobond market today boasts outstanding bonds totalling an estimated \$1,300bn. Turnover in the market reached more than \$7,000bn last year, according to the International Securities Market Association (Isma), the industry's trade body.

As dealers gather today in Copenhagen for Isma's annual meeting, they will be celebrating the 30th anniversary of a market which has undergone radical change.

The market is virtually unrecogdsable from the early days," says Mr Stanislaus Yassukovich, former head of the Securities Association and of Merrill Lynch Europe, "It is a high-volume, low-margin business, which no longer requires the amount of executive attention that

"From the point of view of career satisfaction or intellectual interest, it's duller," said Mr Yassukovich.

But there are compensations profit for one. The mature Eurobond market which is emerging at the end of its third decade is also more lucrative. In the 1990s, perhaps dull is good, because some of the reasons for the market's newfound duliness are also at the root of its dynamic growth.

Over the past 10 years, retail investors, once easy game for aggressive salesmen, have all but appeared from the market, preferring instead to place their money in pension funds or other collective investments. As a result, the investor base of the Eurobond market now consists mainly of professional institutional investors, whose analysis of the market is more rigorous. In addition, US houses started to use their own capital to trade themselves from so-called "arbitrage" desks. Initially, they made money by taking advantage of the anomo-lies which existed between markets,

out in another step towards more rationally priced markets. Second, the 1980s were a period of

regulatory liberalisation. As the barriers between markets fell away, restrictions on investment disappeared, and instead of being a separate entity, removed from any domestic market denominated in the same currency, Eurobonds became virtually indistinguishable from many domestic bonds. This blurring of the lines made it easier

to compare value between markets. In addition, the Latin American debt crisis of the early 1980s laft banks nursing their wounds, and unable or unwilling to meet the financing needs of companies in the buoyant years of the 1980s. Many turned instead to the Eurobono market, again broadening the range of investments available Last, the advent of the swaps

market which allows borrowers to swap the proceeds of a bond issue into whichever currency is required, created further freedom of movement between international

The Eurobond market is now a vital, if not essential, source of banks and companies around the world. For example, when the upheavals of Europe's exchange rate mechanism last September left several governments in urgent need of fresh funds to replenish their reserves, the Eurobond market proved the cheapest and quickest

and domestic markets.

source of funds available.

While some dealers may start to get misty-eyed as they reminisce in Copenhagen tonight, not everyone harks back to a golden age. Many are relieved that the market has at last cast off its barrow-boy image. Tales of salesmen arriving in the Middle-East, armed with brief-cases stuffed with bond certificates and a strong sales pitch, and returning with wads of petro-dollars, make for colourful har-room anecdotes but do not foster the impression of professionalism which is now considered de rigueur.

In any case, memory can prove deceptive, "Don't let them kid you," warns Mr Peter Luthy, a partner of Luthy, Baillie, a bond boutique. "There were a lot of dull people and duli times in the old days too."

## **OBSERVER**

#### 'Committed' suicide

Are you a charismatic leader? If so, you would be well advised not to mention the fact in a job application, not even if you are committed and dynamic into the bargain.

All of those terms are on a black-list being circulated by London headhunter John Courtis of phrases now odds-on to send crashing into the recruiter's waste

It is likewise best to avoid describing yourself as seeking a new challenge either as a self-starter, team-player, communicator, strategist or conceptual thinker - whether or not successful, market-oriented, loyal, assertive, conscientious, innovative, and/or enthusiastic.

One of the few claims that remain admissible in the Nasty Nineties, he says, is membership of the high-IQ society Mensa...but only if you have since resigned A further point, which might

be useful to executives still in jobs as well as to those seeking them, emerges from Courtis's advice on applying through consultants, as distinct from directly to an employer. "Never refer to them as agencies," he warns.

"Most agencies will be flattered if you call them consultancies. Nearly all consultants will be

offended if you call them agencies." So anyone with a score to settle against McKinseys or the like, now knows how to proceed.

Enarques parked d'Administration, France's Oxbridge combined – never did

headquarters to Strasbourg. The Cresson plan, ostensibly part of the socialists' decentralisation programme to move public institutions to the provinces, was always seen as a thinly disguised affront

But the Enarques have battled back. Only two months after the Cresson edict to be dropped. The whether or not ENA can stay

■ The snooty Enarquy ~ students of the Ecole Nationale equivalent of the Ivy League and like short-lived prime minister Edith Cresson's idea of banishing them from their leafy Paris

to the ENA whose products abound in political high places.

socialists lost power, a government commission has asked for the matter has now been passed on to a Paris magistrate's court which will have the final decision on parked in the capital. No prizes for guessing the onicome now.

Knife edge The best of pals" has not been the best of descriptions for two of the Treasury's consultant clairvoyants, Tim Congdon and Patrick Minford. The reason is that

## doing, alas, is flying fast.



'Ian was shot the other day but the bullet bounced off his railcard

Congdon has openly declared that Minford's knowledge of economics leaves much to be desired. Hence the fascination of their scheduled appearance together this evening on a public platform at the Cardiff Business School, where they both hold chairs. Will they bury the hatchet, or put one another to the sword?

Lame duck

■ Determined to sell its policies to the Brits, the European Com-mission has hired a public relations outfit called Kestrel whose press releases on EC consumer protection measures have since flown far and wide. What they haven't been

Take, for example, last month's attempt to interest the media in EC product liability law. It fell flat, achieving only one small and bilious snippet in the whole of the national press. Perhaps that was because the law is five years old.

To cap that, however, the "News-Urgent" missive that winged its way to the nation's editors yesterday managed to be both too late and too early at the same time. Its subject was a consumer contracts directive adopted by EC ministers seven weeks ago, which will not take effect until 1995.

Loaded down

■ A survey just published in Hong Kong seems to rebut the celebrated riposte of philosopher C E M Joad when asked if a good man could be happy on the rack: "Yes -provided he is the saintliest of man. and it is the lousiest of racks."

The Asia-wide study by the Survey Research consultancy found that the happiest nations were impoverished Indonesia and the Philippines, with 94 per cent of people questioned pronouncing themselves happy in each case. The most depressed, on the other hand, were the rich Japanese a

full 30 points lower on the scale. The survey firm summed up the findings with a Chinese proverb saying that, while the contented can make light of poverty, the discontented will remain so

no matter how rich they be To which the Japanese might reply: "But at least they can be miserable in comfort.

#### Choked off ■ Not even a police escort was

enough to get German foreign office mandarin Dieter Kastrup to his desk through yesterday's left-wing the tightening up of asylum laws. His car was spotted and forced into a side street under a bail of stones. So he decided to smuggle himself into work under what, for a bureaucrat, is a deep disguise. He took off his tie, and strolled casually up to the door. The trouble

was that the attendant took one look at his open collar, and refused Fortunately his repeated claims to being state secretary led to the summoning of security guards who, after demanding to see his identity

#### card, let him pass. Whereupon, of course, he replaced his tie. To boot

■ W H Smith would seem to be siding with Tottenham Hotspur chairman Alan Sugar in his dispute with club chief executive Terry Venables. The retail chain's Hammersmith branch is displaying a pile of board games fronted with a large portrait of Venables and the title: How to be a manager. They've been marked down from



## Delors seeks to restart drive to EC political and economic union

MR Jacques Delors, president of the European Commission, yesterday made his boldest attempt this year to relaunch the European Community's drive towards deeper political and economic

In a speech to the European Parliament, he urged the EC to press ahead with the next phase of economic and monetary union and the streamlining of decisionmaking powers now that the Danes had voted in favour of the

Maastricht treaty.

Mr Delors criticised the "beggar-my-neighbour" policy of competitive devaluation of currencies and urged the EC to support the putative single European currency, the Ecu, which remained

We must try to recover the

was still alive until very recently," said Mr Delors, who has been keeping a comparatively low profile recently.

Mr Delors said he was still deeply concerned by the grave economic crisis in Europe and the situation in the former Yugoslav republics, but in political terms "the train is back on the

The Commission president also ended the year-old taboo on discussion of institutional reform of the Community by saying it was time to draw up a "blueprint for a greater Europe".

Last year's vote against Maastricht in the first Danish referendum was partly blamed on fears that EC decision-making would be amended, once new members joined the Community, to limit the use of national vetoes. Mr Delors said yesterday that

the birth of the Community and was still alive until very recently," said Mr Delors, who Sweden and Austria, members of the European Free Trade Association, without considering how a greater Europe would work. "We must have a Community which is political, efficient in its decision-

making and which can con-

stantly deepen its own sense of

unity." he said.

Mr Delors said discussion on the shape of a future European union could "start today", a rebuff to the British view that after enlargement of the EC. Mr John Major, the British prime minister, has said the EC should have the new members in place before any further consideration is given to institutional change.

In spite of its enthusiasm for greater integration, Belgium, which takes over the EC presi-

dency from Denmark in July, has said the EC should wait for the admission of new members before pressing for more federal and supranational decision-mak-

Both Mr Delors and Mr Henning Christophersen, the EC economic affairs commissioner, yesterday warned that Europe's record on growth and employment was in danger of further deteriorating against the US and Japan if efforts were not made to improve co-ordination of member states' economic and monetary

Today in Bonn, Sir Leon Brittan, the EC's trade commissioner, will urge the EC to concentrate on existing challenges, including the Gatt, Emu and relations with eastern and central Europe.

> Delors makes services a Gatt priority, Page 4

## Deputies face protests as Bonn debates asylum laws

By Arlane Genillard in Bonn and Lionel Barber in Brussels

THE RIVAL decibels of anti-racist rock bands and police helicopters shattered the calm of Bonn yesterday as German parliamentarians gathered in a session aimed at curbing the country's liberal asylum law. Some 5,000 young demonstra-

protested against changing article 16 of the constitution, which has until now granted any refugee the right to seek asylum in the country. The amendment will allow Germany to send back asylum-seekers to neighbouring countries such as Poland and the Czech Republic.

Parliamentarians - hundreds of whom were brought in by spe-cial ferry or helicopter to bypass a human chain of protesters were still debating the amendment last night. But approvai seemed secured after the opposition Social Democrats (SPD). agreed on Tuesday to push the constitutional change through.

The SPD approval closes two ears of a flerce debate over Ger-

Continued from Page 1

dent of Pakistan, is not within

the ambit of the powers conf-

erred on the president . . and has

therefore been passed without lawful authority," the court said.

The decision removed from

office the interim government installed by the president, which

had included members of Ms Ben-

azir Bhutto's opposition party. It

meant that elections which Mr

Khan had called for July 14

However, Mr Sharif's future

remained uncertain amid talk of

moves to remove him through a

would not be necessary.

gees have been applying for say-lum at the rate of 1,400 per day since the beginning of the year. In 1992, some 440,000 asylum demands were filed.

It comes as EC interior ministers are expected to approve tough new measures to control illegal immigration across the Community at a meeting in Copenhagen next week.

The measures include stricter checks on foreign students and residents working illegally inside the EC; a crackdown on people without residents' permits, as well as closer monitoring of short-term visitors, tourists and others who are authorised to be reunited with their family but not authorised to work.

The get-tough policy reflects increasing concern about illegal immigration in Germany. Mr Wolfgang Schäuble, head of

the parliamentary club of the ruling Christian Democratic Union (CDU), in parliament yesterday called for more burden-sharing in Europe in dealing with asylum-

Germany currently has twothirds of all asylum-seekers in many's liberal asylum law. Refu- Europe. But the EC move on ille-

Pakistan prime minister Nawaz Sharif (centre) at prayer with supporters yesterday

vote of no confidence in the National Assembly, perhaps as early as today.

Ms Bhutto said: "The political

reality is that the people and the

country want fresh elections to

choose a representative govern-ment." Boarding a flight from Karachi to Islamabad, she said:

"We must proceed with great caution to see that Pakistan is

safe from any chaos."
The detailed judgment has not

been published. It is believed to

have been made partly on the grounds that the president acted

in haste without trying to resolve

a government crisis through

Pakistan parliament restored

gal migrants has been given added impetus by the new French government and Mr Charles Pasqua, the hard-line Interior minister.

Last November, EC member states agreed to send asylumseekers with "manifestly unfounded" claims to "safe" countries - a move which Amnesty International says will have the effect of dumping asy-lum-seekers in eastern and central Europe.

The German constitutional change will allow border guards to immediately turn back asy-lum-seekers. Over 80 per cent of asylum-seekers entering Germany last year crossed the Polish or Czech borders.

The constitutional change will also pave the way for the longawaited German ratification of the Shengen convention which aims to loster co-operation among European community member states. The convention allows anylum-seekers in the EC to be returned to the member country in which they originally

Editorial Comment, Page 21

mediation. Mr Sharif had been seeking to remove the presiden-tial powers which Mr Khan used

to dismiss him, as well to eject

Ms Bhutto's government in 1990.

ment as an important milestone

in Pakistan's history. He led a crowd to Islamabad's Faisal

mosque where he offered prayers

It is unclear whether Mr Sharif

will be able to establish a work-

ing relationship with Mr Khan,

given the bitter relationship

between them, even though Mr

Khan's term of office as president

is due to end in November

of thanksgiving,

Mr Sharif described the judg-

## **UK** rift as Lamont fights for his job

By Philip Stephens and

THE BRITISH government was last night threatened with a serious rift because of a behind-thescenes battle over Mr Norman Lamont's position as chancellor of the exchequer.

As the political momentum built up for an early reshuffle of Mr John Major's cabinet, Mr Lamont was said to be fighting hard to resist the mounting pres-

sure on his position. Cabinet colleagues said the chancellor was insisting he should not be made the "scapegoat" for the government's political difficulties.

Mr Lamont, who made it clear that he intends to spend the next few days pressing ahead with preparations for the annual review of public spending, was said by friends to have won significant support among rankand-file Conservative MPs.

But the prime minister's office declined to quash the wave of speculation that Mr Major was preparing to shake-up his minis-terial team.

Senior party figures mean-while were making little secret of their belief that Mr Lamont should be replaced at the Trea-

sury as soon as possible. Mr Kenneth Clarke, home sec retary; Mr Michael Howard, environment secretary; Mr Mal-cohn Rifkind, the defence secre-tary; and Mr John MacGregor, transport secretary, were all being promoted as suitable

ments for Mr Lamont. Some MPs suggested that a today but the consensus an senior ministers was that Mr Major would consider his options during the Whitsun recess after parliament breaks up later

Mr Major made it clear in his interview this week with the Financial Times that he would not be pushed into a reshuffle by redia speculation or by attempts to "assassinate" members of the cabinet. But he is now being warned that the speculation is destabilising the government.

The impression of disarray was reinforced yesterday when Mr Lamont and Mr MacGregor offered markedly different assessments of the ultimate goal of the government's proposals

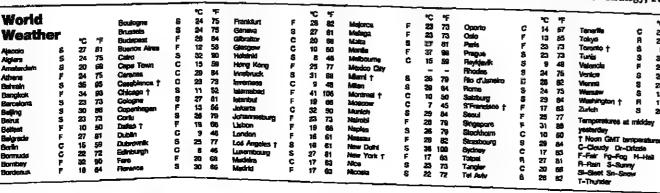
for road pricing.

Mr MacGregor was dismayed at the chancellor's suggestion that motorway charges would lead eventually to privatisation of large sections of the roads net-

The appearance of disunity was further underlined by an unrelated row between Mr Mac-Gregor and Mr William Waldegrave, the public services and science minister.

Mr Waldegrave was furious that a policy document unveiling the first overhaul in decades of the government's science policy had been overshadowed by Mr MacGregor's discussion paper on motorway tolls.

> Motorway proposals, Page 8 Science strategy, Page 10



#### THE LEX COLUMN

## France's sale season

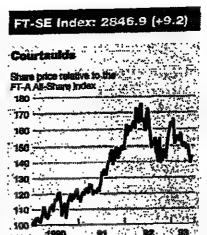
The details of France's massive privatisation programme highlight how the process is being driven by pragmatic politicians with financial problems to solve rather than wildeyed ideologues with dogmas to prove. Despite Mr Edmond Alphandery's freemarket training at the University of Chicago, the economy minister has adopted a typically Gallic approach. The state will retain significant influence over its 21 liberated offspring by means of extensive golden shares and privileged shareholder groups. Such measures will doubtless irritate investors reared in Anglo-Saxon markets but are unlikely to deter them if the pricing is right. This may prove tricky given recent wobbles in the economy and stock market.

The government may eventually raise up to FFr500bn selling off the biggest of the 2,600 companies it owns. This will make a big dent in France's national debt. It will also provide more flexibility in softening the effects of its recent budgetary rigour. The government is now busy devising neat ways of attracting domestic investors through tax incentives. This week's FFr40bn government bond, which can be converted into equity in privatised companies, represents another inge-

Yet the real stimulus for investors would be further interest rate cuts. This would simultaneously suck funds into the market by decreasing the attraction of cash while reassuring investors the damage to the underlying economy would ease. A gesture from the Bundesbank may yet prove the French government's saving grace.

Union Bank of Switzerland has been taking a while to live down the row sparked by the increase in authorised capital approved by last month's annual meeting. Critics accuse the board of wording the request in a way that slides round the improved protection of shareholders' pre-emption rights enshrined in the new Swiss company law. In practice, though, there is little chance of UBS overriding pre-emption rights except in connection with an acquisition, which is snyway permitted under the law.

Nor does the capital increase seem specifically intended for a takeover, since the bank is apparently backing away from the idea of an acquisition in the US. The extra resources would help if an opportunity did arise, but it looks increasingly as though UBS is



simply manifesting a typically Swiss bank addiction to rights issues which underpin balance sheet growth. UBS may not like to admit it, but it cannot relish the thought of being overtaken in terms of total assets by the CS group which now owns Swiss Volkabenh

It would be a pity if UBS let such concerns distort its priorities. It is usually better for banks to rely on retained earnings rather than shareholders for extra capital, especially when they are making low returns. UBS is well short of its medium-term target of 10 per cent for return on shareholders' funds. Its return of just over 7 per cent compares with nearly 12 for CS Holding. It would do well to catch up on that measure before worrying too much about the size of its balanca sheet

#### Courtaulds

Far from making the rights issue the market feared, Courtaulds did not even offer an enhanced scrip dividend with its full-year results. Plenty of other companies with £29m unrelieved advance corporation tax and chunky capital expenditure plans would have leapt at the opportunity, but that is not Courtaulds' style. Even so, gearing of only 40 per cent owes a lot to the cash extracted from the pension fund surplus before the year end. Profits were equally flattered by a pension fund credit, which will be 29m lower this year, and by translation of oversess profits into sterling at an attrac-

Whether Courtsulds' main markets improve before its buck turns in the currency markets remains an open

question. The outlook in defence and aerospace is hardly encouraging, although weaker sterling will almost certainly make for better export prospects this year than in the first half of last. The joint venture with Hoechst in acrylic and viscose fibres also looks adroit. Since Courtaulds' existing capacity is at full stretch, operating margins on the £130m new turnsover to be consolidated should eventually be well up with the group average of 16 per cent - although possibly no before a restructuring charge.

That suggests another tough year in come. But while there are many other industrial companies more geared to recovery, an increased dividend covered more than twice by earnings makes Courtaulds stand out from the

#### North West Water

Residents of Manchester and Liver pool may be surprised to learn that their environment is similar to that in Malaysia, Bangkok and Mexico City. But that is the view North West Water takes of their plumbing when it argues that its overseas diversification programme is a low-risk extension of its existing business. International activities are, however, rarely as sim-ple - or indeed profitable - as optimistic managers fondly believe at the outset. Joint ventures also bring an added level of complication and potential mishap, while 30-year operating contracts in the developing world may

Investors may thus be unhappy that the £60m of cash saved by North West's enhanced scrip dividend will be ploughed into its loss-making interna-tional operations. Especially since the company has not seen fit to explain what returns it expects to earn abroad or even when those operations will become profitable. It must also be questionable whether a recently privatised utility has the management strength to tackle a large portfolio of foreign operating contracts.

Since other water companies also have high capital expenditure and unrelieved advance corporation tax, more enhanced scrip dividends may be expected. Ofwat, while not directly involved, may view them as a sensible tool to help balance debt and equity finance. Though whether they prove to be any more than a one off will depend both on the Inland Revenue, and on whether Ofwat regards 50 per cent increases in scrip dividends as an acceptable price to pay.

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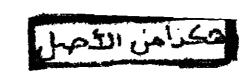
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large

THE FINANCIAL TIMES LIMITED 1993

Thursday May 27 1993



#### Tandy drops plan to split in two



INSIDE

Tandy, the US consumer electronics group headed by John Roach (left), has decided not to split its retailing and manufacturing ides into two independently-quoted companies. The Texas-based group said it would sell part of its PC-making operations to AST Research, a Californ-ia-based manufacturer of IBM-compatible desktop and notebook computers and divest much of the remaining manufacturing

Sharp hit by rising yen

Pre-tax profits at Sharp, the Japanese consumer electronics and office equipment maker, have failed 37 per cent to Y44.5bn (\$405m) reflecting the downturn in the Japanese economy and the appre-ciation of the yen. Sharp sells about 50 per cent of its products overseas. Page 25

#### UBS sits on its cash



Union Bank of Switzer land does not intend to make a large acquisition within the next two years, according to its executive vice-president Ulrich Grete, His comments come in the wake of the bank's controversial resolution at last

to raise authorised equity capital by about 8 per cent for possible use in financing takeovers, and follows stock market rumours that UBS was planning a takeover of Lehman Brothers, the invest-ment benking subsidiary of American Express. Page 24

#### Death of foreign investment



A decision by Bolivia's Supreme Court may put the final nail in the coffin of Bolivia's attempts to attract foreign investment to its mining sector. The real out by Armundo Guzman, executive director of a state mining group, who said: "It would stop all foreign investment coming to Bolivia." Page 32

#### Uncertain times in Venezuela

ket, 1993 is not shaping up to be much better. Since early last year, political upheaval and continued uncertainty over future economic policies, together with high domestic interest rates, have hurt the performance of the Caracas stock exchange. Back Page

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London share service Liffe equity options London tradit, options Managed fund service Money markets New int. bond issues

## Companies in this issue

Chief p	rice	c	han	ges yes	erd	ау	
PREAMIKE FURTY FRISOS AG ind & Verk Rheinelektra VEW Continental AG Luftrarsa PWA WYOTEK #	955 165 263 192 102.2 153	+++	14 32 8.5 8.6 3.8 3.9	PARIS (FFF) Rises Laterge Copes Logand Locabel Falle Fanc Lyomakes Imm de France Schneider TOKYO (Yes)	352.9 4485 274.5 576 880 669	+++	11.4 151 18.5 25 29 21
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Herring Baker	75	+	7	ACT	105	_	10
H-Tec Sports	47	+	.7	Abbey	69	_	4
Jarvis Porter	264	+	15	Alexant .	119	_	7
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MITM	1114	+	52	Peek.	68	-	- 7
Perpulual	453	+	12	UK Land	30	-	-
Profess list	360	+	12			_	

Chairman says dividend will be held at DM13 by taking from reserves Daimler-Benz sales decline by 20%

#### By David Walter in Stuttgart

SALES at Daimler Benz, Germany's biggest industrial company, fell by nearly 20 per cent in the first four months of the year to DM26bn (\$16bn) the group's chief executive told shareholders at yesterday's annual general meeting.

Earlier this month Daimler reported first-quarter net profits of just DM20m. down from DM480m in the same period last year. For the first three months sales were down 19 per cent to DM18.4bn.

Yesterday's figure shows that business conditions for the group have deteriorated further during May but Mr Edzard Reuter, chairman, voiced a degree of confidence about the outcome for the full year.

Without repeating the forecast that net rofits would reach DM1bn - after DM1.45bn last year - Mr Reuter said the group would strive to maintain a dividend payout of DM13 for 1993 as well as 1992, even if it meant dipping into reserves in order to be able to do so.

HE RACE is on to become

of the world's multinationals,

write Andrew Adonis and Martin

American Telephone & Tele-

graph's launch this week of

Worldsource", a set of custom-

ised international business tale-

coms services, marks a deter-mined bid for this pitch by the largest US carrier. British Tele-

com, the privatised UK operator,

has similar ambitions, and as lib-

eralisation forces the other large

European telecoms carriers to

look outwards, they too could

The goal is simple: to become

the "one-stop shop" for the 2,500-

odd large companies with glob-

ally dispersed operations - managing and integrating their inter-

national networks, offering them

the latest in data and voice facili-

ties, and providing a single point

of contact however dispersed the

Vorldsource aims to do virtu

ally that by creating a web of

partnerships with other opera-tors. This week it announced a

link-up with Kokusai Denshin

Denwa of Japan and Singapore

region has the world's fastest

"This is the way we see the

world going - forming alliances

to meet the needs of global cus-

tomers," said a spokesman for MCI Communications, the second

largest US long-distance carrier.

For multinational customers,

Worldsource is evolution not rev-

olution. International telecoms

companies already have partner-

ship deals inter-connecting private networks and offering other

services. AT&T's Global Software

Defined Network (GSDN) links it

with 21 international carriers in

such an arrangement; BT's coun-

terpart, Featurenet, embraces 14

carriers (including AT&T) and

has more than 100 customers.

growing telecoms sector.

enter the field.

company's outlets.

"global outsourcer" for the

telecommunications needs

The main source of the downturn in sales in the first third of the year were developments at the the Mercedes-Benz luxury car subsidiary.

But although sales in the group's most important subsidiary fell 24 per cent in the first three months, Mr Reuter predicted that for the year as whole they would be at around the same level as 1992 when they proched DMGS the they reached DM66.5bn.

The impetus to sales was likely to come from the introduction of the C-class Mercedes scheduled for June this year. This will replace the 10-year-old 190 series, the company's smaller executive car, and Mr Reuter predicted that it would be an "extraordinary success".

Commenting on the circumstances leading up to Daimler's decision to abandon Mercedes Holding (MAH), the holding company set up in 1975 to prevent the Shah of Iran from taking a large stake in the group, Mr Reuter acknowledged that Daimler had been rushed into making an announcement of its plans on April 2.

Worldsource project seeks European partners

AT&T targets telecom

needs of multinationals

The original plan had been to break the He said that disbanding the holding structure would show that Daimler no lon-

He said that the method and timing of making the announcement, at 4pm on a Friday afternoon without the shares in either MAH or Daimler being suspended. was the "best and most profes of making the news public.

The MAH share price rose sharply in the days ahead of the announcement. These price movements are currently the subject of an investigation by the Insider Dealing Commission of the Frankfurt Stock Exchange.

Mr Franz Steinkühler, who resigned as head of the powerful IG Metall union on Tuesday this week after the disclosure of his dealings in MAH shares ahead of the announcement, came in for heavy criticism at the meeting yesterday. Shareholders condemn Steinkühler, Page 2



## Volkswagen wins first round in

## court against GM

GENERAL Motors, the world's leading volume carmaker, yes-terday suffered its first important loss in the legal battle against Germany's Volkswagen. An initial bid to prevent seven former employees of GM and Adam Opel, the US group's German subsidiary, from working for Volkswagen for 12 months was rejected by a Frankfurt

Meanwhile, a public prosecutor examining GM's complaints of industrial espionage against a top VW executive, said preliminary investigations could last at least six months.

The US concern had been asked to provide further docu-ments to back its most serious claim against VW: that its former global buying chief, Mr José Ignacio Lopez de Arriorina and others had taken secret documents and industrial informstion to VW in March.

An Opel spokesman said later that the case against the seven more junior VW employees would continue. Yesterday's rejection at an oral hearing of Opel's application for an urgent temporary injunction would be followed by a full hearing, he added. Timing would depend on

the court's timetable.
"We had expected this ver-

#### dict," Dr Lopez said in a stateof our own free will. Every person has the right to choose

where he works.

The decision was the first significant setback for Opel, which recently won an injunction barring VW from continuing "sys-tematically" to peach its personnel. According to Opel, Mr Lopez and his colleagues had approached around 40 senior buying and production staff.
According to a VW official, the

company had chosen not to challenge this injunction to "avoid further legal conflict and because the charge was not valid either in the past or now".

The seven involved in yester-

day's case, which did not involve Mr Lopez, include former top members of Mr Lopez's buying team at GM, who left the US shortly after their boss. Most notable is Mr José Gutiérrez, GM's former machinery and equipment procurement chief.

The delays caused by the lengthy investigation into the charges against Mr Lopez and the rejection of the call for the injunction will bring widespread relief to VW.

They will allow VW's new employees to press ahead with the urgent, radical overhaul of the purchasing and manufacturing processes which are central to the group's recovery plan.

## **Swissair** ordered to rethink alliance

THE SWISS government has for the first time indicated unease about Swissair joining an alliance with three other European airlines. It has ordered the company to put forward alternative plans for its future that would guarantee its independence.

The decision throws fresh uncertainty over the ambitious plans of Swissair, Scandinavian Airlines System (SAS), KLM Royal Dutch Airlines and Austrian Airlines to merge their operations into a joint company. Their merger is intended to form a "fourth force" in the European airline industry to compete against the big three European

airlines: British Airways, Lufthansa of Germany and Air

pany but a trademark for our country," Mr Achille Casanova, the government's spokesman, said after a cabinet meeting.
It is also of significant strategic

importance. Many of the airline's pilots fly part-time for the Swiss Air Force A Swiss Sunday newspaper

claimed last Sunday that the alliance would result in the suppression of the Swissair name, the loss of 10,000 Swissair jobs and the movement of important decision making to Amsterdam. Swissair replied that its name

would be preserved in the medium term as would Zurich as a decision centre. The job loss figure was "wildly exaggerated". Mr Casanova said Swissair's future had a political dimension" since the airline was 20 per cent owned by Swiss public authorities, including the federal government with 7 per cent.

Similar outbreaks of opposition to the four-carrier alliance have already broken out in Austria, where Lufthauss is understood to be discussing with Austrian Airlines the possibility of an alternative commercial partnership. If these talks are successful and Austrian Airlines opts for an alliance with the German carrier, this would represent a further blow for the four-airline alliance. Swissair said it was convinced that the proposed alliance, which has been called the Alcazar project, was right for securing its economic future.

The partners in the venture are seeking to set up a joint operating company by the beginning of next year in response to the increasing globalisation of the

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Sterritor	1,425	6.0	Cerecia	
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ABST	960	17.1	Italy	
(00	860	11.3	Japan	
Seignoon	823	12.6	Belgium	
US Sprint	723	25.3	US .	
Teleforite	719	17.7	Spain	
Buredist: Telecom	850	7.2	Sweden	
Talegiobe	847	14.5°	Caredo	
Austrian PTT	642	14.8	<b>Austria</b>	
ACTO	610	8.0	Australia	
China PTT	594	29.1	China	
Taknas	500	18.8	Minico	

2,295

2,213

City telecoms analyst: "it's innovative - but international telecoms is increasingly a commodity business based on price, and of itself Worldsource does little to make it cheaper."

Telecom, and indicated that Uni-Extending the service to Europe is critical to Worldsource. tel of Canada, Telstra of Australia and Korea Telecom intend to join soon. It plans to take World-AT&T is budgeting to spend source into Europe next year. 350m over the next five years providing facilities and upgrad-ing equipment in Europe. Mr John Foster, director of AT&T's With analysts predicting that turnover in international tele-coms traffic will more than doucommunications services in ble by the year 2000, the financial stakes are immense. It is signifi-cant that AT&T launched World-Surope, said he was keen to talk to "almost any" European tele-com operator about a link-up, but source in the Asia-Pacific: the

no deals are imminent.

Since Worldsource does not give AT&T exclusive rights over its partners, most of Europe's state telecoms operators appear to have little to lose from participation. Unless, that is, they aim to be global outsourcers themselves and want to give no succour to AT&T. AT&T's move challenges companies such as Deutsche Telekom and Telecom France to clarify their interna-tional strategies and link with partners. Says Mr Robert Morris, telecoms analyst at investment house Goldman Sachs in San Francisco: "AT&T has clearly signalled to other carriers throughout the world that it would prefer

not to go it alone and would pre-

Essentially. Worldsource enhances the existing GSDN ser-vice, by adding features like sinfer to work with them." BT, however, has already signalled its determination to go-it-alone. Nearly two years ago BT launched its global outsourcing gle billing, full integration of international data and voice net-works, and improved dialling, cirventure Syncordia, which now boasts nine customers and an annual revenue of about \$200m cult availability and network

(£130m). Furthermore BT and AT&T are currently locked in a battle with US and UK regulatory authorities over access to each other's public fixed network.

US

German

France

So AT&T could have difficul-ties in the UK. But it is not restricted to BT: Mercury is a potential partner, while newlylicensed public telecom operators ionica and National Grid's Energis are building networks of their As for BT, Worldsource could

encourage the UK operator to link up with MCI. There have been rumours for months that this might happen, but the drawback for BT is that it would put itself squarely in AT&T's sights, since MCI is AT&T's most important rival in the US.

AT&T, moreover, has shown itself ruthless in hitting back at global competition from MCI.
MCI's only big alliance so far,
announced last year, was with
Stentor, a Canadian long-distance consortium, under which MCI technology is being used to create a fully integrated interna tional network between Canada and the US. AT&T immediately retallated by taking a minority stake in Unitel, Stentor's upstart Canadian rival, and sued MCI for patent infringement.

Just how strong demand will be for Worldsource is not clear. At the launch, AT&T put together an impressive group of companies who said they needed the service. If Unisys, Honeywell, Motorola and United Parcel Sertruly be AT&T's oyster.

## management standards. Says one Hoechst in viscose merger

By Paul Abrahems in London

HOECHST, the German chemicals giant, and Courtaulds, the UK group, yesterday announced they had reached an agreement to merge their Euro-pean viscose and acrylic fibres

The joint venture, to be majority owned by Courtaulds, would have had a turnover last year of £369m (\$568m), of which the UK company's share would have

Mr Sipko Huismans, chief exec-utive, declined to say what pro-portion will be owned by the British company, but said it was substantially more than 50 per cent, and that in effect the deal was a takeover. The business would be consolidated in Courtaulds' accounts, he added. The merger is subject to the

agreement of competition authorities. The joint venture would be Europe's largest manufacturer of viscose, which is used for cotton substitutes and disposable bedding. The operations would have a capacity of about 135,000 tonnes a year, larger than those of Lanzing of Austria, which has capacity of about 130,000 tonnes a year. In acrylic fibres - used as a

wool substitute - the merged

business would be Europe's number two, with capacity of between 195,000 and 215,000 tonnes a year. European capacity is about 830,000 tonnes a year, according to Mr Simon Garmston, senior

partner at PCI-Fibres and Raw Materials, the specialist consul-The deal, which is scheduled to be completed this autumn, gives Courtaulds greater access to the

European textiles sector, said Mr

recently started producing a new textile product in the US called Tencel, but its strength in European viscose is manufacturing non-textile unwoven products.

Hoechst has been hit by the decline of the European textiles industry. "Prices are horrible," said Mr Jean-Louis Juvet, direc tor general of the Brussels-bases International Committee of Rayon and Synthetic Filament. "All but Courtaulds are losing

money," he said. The European acrylic fibre market has been more stable, but has been affected by a slowdown in demand from China demand. in demand from China, the world's largest importer. Hoechst does not have sufficient volumes to make money in present cir-cumstances, said Mr Juvet.

Lex, Page 22; Courtanide results, Page 28

## INTERNATIONAL COMPANIES AND FINANCE

# ahead slightly for year

By Halg Simonlan in Milan

SME, the Italian state-owned foods, retailing and catering group, which is to be sold into the private sector, reports a slight increase in group net profits after minority interests, to L127.2bn (\$86.1m) last year from L125.6bn in 1991.

Group sales totalled L5.850bn against L5,814bn. However, adjusted for disposals during the year, turnover rose by 8.2 per cent.

The sharpest growth came in food production - which will be the first division to be sold - with a 11.9 per cent rise in sales to L2,104bn. Adjusted for takeovers and disposals, the increase was 6.5 per cent.

Turnover on the catering side, concentrated in the Autocent to L1,115bn, while food expressed the strongest inter-retailing rose 4.8 per cent to est in Italgel, industry observ-

SME's earnings rose much more sharply at pre-tax level, with a leap to L230.2bn from L142.2bm in 1991. The company said net earnings had been burdened by much higher tax payments.

Parent company net profits jumped by 27 per cent to L93.2bn from L73.5bn, largely due to extraordinary gains on the sale of subsidiaries. The dividend remains unchanged at L110 a share.

The names of the successful candidates for the purchase of SME's Italgel frozen foods and Cirio, Bertolli, De Rica tinned foods divisions are expected to be announced by next month.
While multinationals, includ-

ers suggest CBD is more likely to be bought by an Italian pur-

IRI, the Italian state holding company which controls SME, yesterday announced an expansion of its three-man board of directors to six members. Earlier this month, Mr Romano Prodi, an academic and former chairman of IRI. was reappointed chairman after the arrest and resignation of Mr Franco Nobili.

The move marks a further step in the transformation of IRI to a market-driven group, which began with last year's change from state entity into joint stock company and a sharp reduction in the size of its board, then principally com-

cern, the company said. Analysts said other water companies are now expected to schemes over the next few

Turnover increased 11.3 per

North West said it continued to cut costs and lifted operating profits 17 per cent to 2288.2m. There were provisions of £36m for future redun-

The company recommended a final dividend of 14.27p to make a total of 21.4p. an 8.8 per cent increase. The enhanced scrip alternative is equivalent to a dividend of 21.405p. Swiss Bank Corporation has agreed to buy any new shares at a value equivalent to 20.9769p, or 98 per cent of the enhanced dividend.

## in scrip dividend offer

By Angus Foster in London

NORTH WEST Water yesterday began the privatised water companies' reporting season by announcing a 7 per cent increase in profits.

Pre-tax profits increased from £230.1m to £247.1m (\$380.5m) in the year to March 31, mainly because of price rises but helped by a larger contribution from unregulated businesses like process equip-

North West also announced it was offering shareholders an enhanced scrip dividend. Like the other water compa-nies, North West is unlikely to have to pay any mainstream corporation tax for several years because of high capital allowances.

The enhanced scrip schem will help eliminate unrelieved advance corporation tax. Money saved will be invested in North West's international business. Ofwat, the water regulator, was informed in advance about North West's plan and expressed no con-

launch enhanced scrip

cent to £877.9m after average annual price rises of 9 per cent. At the interim stage, £130.7m on £421.7m sales.

from £296.4m to £534.6m. Earnings per share increased 7.6 per cent to 62.3p.

# Food division puts SME | NW Water | UBS plays down takeover hopes

By Pater Montagnon and Ian Rodger in Zurich

UNION Bank of Switzerland. the country's largest bank, would like to expand its investment banking presence in the US, but faces extraordinary regulatory obstacles there.

Any important acquisition of a US company or business in investment banking would almost certainly oblige the bank to close its substantial and successful commercial US bank branch, Mr Ulrich Grete, UBS executive vice president.

Thus, stock market rumours in recent weeks of a takeover by UBS of Lehman Brothers, the investment banking subsidiary of troubled American

Express, seem unfounded. UBS never comments on rumours, but Mr Grete said the bank was not working on any acquisition projects at the moment. He said the bank probably would not make any

next two years. The comments come in the wake of the bank's controversial resolution at last month's annual meeting to raise authorised equity capital by about 8 per cent for possible use in financing takeovers.

large acquisition within the

Under a new Swiss law. companies can use such reserve capital at any time for a period of two years without seeking further shareholder approval for rights issues or for "important purposes" without offer-

reflecting beneficial currency movements and volume

growth. Operating profit eased

to SKr523m from SKr531m fol-

lowing last year's disposal of

energy operations. This, however, was more than offset by a

drop in financial costs, from

The group said all but one of

its four main business units

improved earnings. Graphic

5Kr373m to SKr252m.

right to buy the shares. At the end of the two years, it must seek a fresh mandate from shareholders at the AGM.

UBS has been criticised in Swiss financial circles for stretching the interpretation of the law and seeking to under-mine shareholder rights. It was generally understood that such shares would be used in lieu of cash in cases of takeovers, but UBS has given itself the right to make market placements as well to finance takeovers.

Mr Grete said the bank's main goal was to improve its return on equity - 7.4 per cent last year - to 10 per cent by 1995, so it would try hard to avoid issuing new shares. However, the US was "the one

ing shareholders the prior area" where the bank might make "an extraordinary step" to improve its position in asset management and investment hanking.

The problem was that any such acquisition could under mine its ability to continue carrying on both investment and commercial banking in the US. At the moment, it benefit ted from "grandfather" status having both types of business prior to the passage of the International Banking Act. But this status would be in jeopardy if it made a significant

acquisition. "The probability that in two years time we will have to renew the authorised capital without having used it is very

## grill subsidiary, climbed 9.7 per ing Nestlé, are believed to have Queens Moat relist delayed

By Angus Foster and Christopher Price in London

SHAREHOLDERS in Queens Moat Houses, the suspended UK hotel group, may have to wait until the autumn before the company is relisted.

The relisting depends on a refinancing, expected to be formalised in September. It will also require asset disposals to reduce the company's mounting debts, and a new set of accounts. "It's a pretty stan-dard refinancing, but it's still blg and complex," a banker

Queens Moat's 64 creditor executive. Morgan Grenfell,

BANK Austria, the country's

largest bank, is expected to

continue resisting domands

that it submit to an audit by

the state auditing office

the mayor of Vienna, ordered

the bank to comply with the

Rechnungshof's demand. A

foundation controlled by the

city has a majority stake in the

Yesterday, Mr Helmut Zilk.

By lan Rodger in Zurich

(Rechnungshof).

banks, which are led by Barclays and owed about £1bn, (\$1.54bn) are due to meet today and will be asked to agree to a further three-month standstill on interest and principal

repayments. They will discuss a report compiled by Grant Thornton, the accountants, which is expected to conclude that Queens Moat has positive net

assets and a viable future. Mr Andrew Coppel, the former finance director of Ratners Queens Moat in April, is expec-ted to be confirmed as chief

Bank Austria defies audit authority

ment holds another 25 per

The Rechnungshof's auditors

attempted to enter the bank

earlier this month but were

Mr Rene Alfons Haiden, chief

executive, said then that Bank

Austria was a private company

and therefore not subject to

Mr Siegfried Sellitsch, chair-

man of the bank's supervisory

board, said foreign sharehold-

normal state audits.

bank. The national govern- ers, including Italy's Cariplo

which worked with Mr Coppel at Ratners and Sale Tilney, has replaced Charterhouse as Queens Moat's financial The company announced yesterday that Mr Martin Marcus and Mr David Hersey, for-

merly deputy chairman and finance director respectively, had resigned from the company. They were suspended once Queens Moat's problems became apparent at the beginning of April. The expected delay for the

refinancing and relisting has added to worries among shareholders and some creditors.

and Germany's Hamburg-Man-

nhelmer-Versicherung, were

particularly upset about the

The bank's supervisory

board and board of directors

are to discuss the matter on

June 17. They are likely to

anneal to the minister of

finance and, if that fails, to

Austria's supreme court for

Mr Haiden has indicated that

he would consider taking the

case to the European Court.

administrative cases.

prospect of public control.

Net borrowings increased

## Cost reductions help lift SCA by 72% SKr8.58bn from SKr7.98bn

By Christopher Brown-Humes

SCA, Sweden's second-largest pulp and paper group, said the weaker krona, cost reductions, and increased volumes helped push up profits by 72 per cent, to SKr271m (\$37.2m), in the first quarter of 1993.

Mr Sverker Martin-Löf, president, said the group's most important markets, particu-larly Germany, were still weak. Prices remained under pressure for most products, excluding lightweight coated paper. However, the company is sticking to its earlier forecast of full-year profits in the range

of SKriba to SKri.5bn. Sales rose 8 per cent to

paper operations made a profit for the first time in five quarters, posting a SKr37m operating surplus after last year's SKr74m loss. The unit benefited from cost reductions and the stronger dollar, which reduced exports of newsprint from North America to Europe.

markets still weak' The company's hygiene division, Mölnlycke, had another

strong quarter, with profits rising 82 per cent to SKr311m. The packaging division saw operating profit rise to SKr153m from SKr114m.

Sverker Martin-Löf: 'big



By Ronald van de Krol

KNP BT, the newly-formed Dutch paper, packaging and printing equipment group, has announced a "modest" loss for the first quarter of 1993. It said the downward trend continued into April and May.

The company announced a reshuffling of its role as a sales agent for Germany's two biggest manufacturers of printing equipment, MAN Roland and Heidelberg.

This will allow it to meet conditions laid down by the European Commission when it approved the KNP BT merger earlier this month.

Mr Robert van Oordt, chairman, cautioned that it would not be easy for KNP BT to post a net operating profit for 1993 as a whole. He said the company would be taking "substantial" extraordinary charges this year to pay for an accelerated programme of reorganisa-tion and integration. It would also be pursuing cost cuts worth Fl 150m (\$82m). Another goal is to make unspecified divestments of non-core activities.

As part of a new geographic split, KNP BT is to create two legally-separate organisations to represent Heidelberg in Europe and Mexico and MAN-Roland in eastern Asia, Australia and New Zealand. To do this, it will be divesting four subsidiaries with combined turnover of Fl 400mto Fl 500m. France, AP-DJ reports.

## **Philips** nears deal on unit sale

By Ronald van de Krol

PHILIPS, the Dutch electronics group, is negotiating to sell in German-based telecommunica tions cable business to NKP Holding, a Dutch unit of Nokie of Finland.

The move follows the fallure earlier this year of talks between Philips and Siemens, the German electronics company, on combining their cable activities into a joint ventura.

Philips declined to reveal its asking price. Its cable manufacturing plants in Cologne and Nuremberg employ 1,100 people and generate annual sales of DM350m (\$214.7m). Philips said its plant in-Cologne would phase out the production of copper cable before being transferred to

NKF. The acquisition will mean a big increase in size for NKF. which has annual turnover of

FI 443m (\$246m). NKF is a former Philips subsidiary which left the group through a management buy-out in 1986. Nokia later built up a stake of nearly 60 per cent in the company. Fokker, the Dutch aerospace group, is exploring a possible

partnership in space technol-

ogy with Matra Marconi of

NEW ISSUE

This announcement appears as a matter of record only

May, 1993



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INVITATION TO TENDER

The State Property Agency of Hungary ("the SPA") invites tenders to purchase up to 40 per cent of the issued share capital of CENTRUM DEPARTMENT STORES ("CENTRUM")

Centrum is one of Hungary's leading retailers and the country's only national chain of department stores. Centrum has 27 department stores, 9 of which are located in Budapest with the remaining 18 in prime locations in towns throughout Hungary. The founders' capital of Centrum is HUF 8,716,560,000.

Bids are invited for up to 40 per cent of the issued share capital of Centrum and must be for at least 10 per cent of the issued share capital. In certain circumstances the purchase consideration for the shares in Centrum may be paid for on an instalment basis and through the use of E-Loans and Compensation Coupons. However, that part of the consideration which will be set against the costs incurred in the privatisation of Centrum, must be paid in cash.

Bids must be submitted either personally, or through an authorised representative. Bids must be submitted in Hungarian, whilst bids of non-Hungarians must be submitted in both English and Hungarian. Five copies of the bid, with the original clearly marked as such, must be submitted in a sealed envelope without any trade mark or logo, bearing the following wording: "Centrum Aruházak Rt.pályázat".

Bids must be submitted between 08.00 and 12.00 noon (CFT) on 2 August 1993 to:

The State Property Agency Central Filing Pozsonyi út 56 H-1133 Budapest Hungary

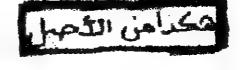
Bidders are required to deposit a sum of HUF 50 million (fifty million Hungarian forints), or the equivalent in a convertible currency, on submission of their bids.

Following the opening of the bids, the SPA may request additional oral or written information. In addition, following evaluation of the bids submitted, the SPA reserves the right to request the bidders to modify their bids and the right to deem the Tender unsuccessful.

The tender package, which includes the tender documents and information on Centrum, is available from 1 June 1993 in Hungarian and English on the completion of a confidentiality undertaking, from Mr Ference Geist at the Representative Office of Barclays de Zoete Wedd Limited at:

East-West Business Centre Rákóczi út 1-3 H-1088 Budapest Telephone: (36 1) 266 0230/266 8882 Facsimile: (36 1) 266 0342

The price of the tender documentation and information on Centrum is HUF 37,500 (thirty-seven thousand five hundred Hungarian forints) inclusive of VAT and its purchase is a precondition for participation in the tender. Payment should be in cash to the SPA's account, number 232-90107-8024 at the National



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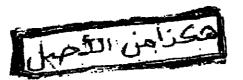
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## INTERNATIONAL COMPANIES AND FINANCE

Toshiba

## Depressed sales and strong yen plague Sharp

By Michlyo Nakamoto in Tokyo

SHARP, the Japanese consumer electronics and office equipment manufacturer, yesterday blamed a 37 per cent drop in parent pre-tax profits to Y44.5bn (\$405m) for the year to March on the downturn in the Japanese economy and the appreciation of the

Sales fell 4 per cent to Y1,153bn as Japanese corporate spending and consumption was epressed and overseas markets remained weak, the com-

98

Group pre-tax profits, mean-while, plunged by 30 per cent to Y51.6bn and parent net profits fell 31 per cent to Y25bn. Audio and communication equipment in particular recorded a big fall in demand, with sales falling 16 per cent. Television and video equipment sales slid 10 per cent.

Sharp was also hit by weakened demand for home electrical appliances such as air-conditioners, which were affected by the cool summer in Japan last year. The division suffered a 6 per cent fall in sales.

The strength of the yen affected Sharp, which sells about 50 per cent of its products overseas.

mer electronics.

It expects these moves to profits by 4 per cent to Y26bn. Sharp will increase its capital spending this year by 12 per

 KDD, Japan's international telecommunications operator, reported a 1.8 per cent fall in sales to Y240bn in the year to March and a 12 per cent plunge on operating profits to Y17.1bn, both hurt by the downturn in

However, the group was able to raise pre-tax profits by 2 per cent to Y26.7bn and net profits by 11 per cent to Y15.7bn.

## Japan's machine makers

By Robert Thomson in Tokyo

buoyed last year by an increase in sales by their shipbuilding divisions, which had been a burden for both companies over the past decade.

Most Japanese machinery makers are reporting sharp falls in sales, but MHI's sales expanded by 0.4 per cent to a record Y2,498bn (\$22.8bn), while pre-tax profit was 9.5 per cent lower at Y140.74bn. At KHI, sales were 2.8 per cent higher at Y952.9bn and profit rose 10.7 per cent to Y22.6bn.

Hitachi Zosen, a smaller company more reliant on shipbuilding, which accounts for 54 per cent of its sales, reported a 41.3 per cent surge in pre-tax profit to Y17.4bn on sales up 14.6 per cent to Y358.5bp.

Japan's heavy industrial companies have reduced the operations and diversified into to Y990bn, while pre-tax profit corporate capital spending and push domestic sales higher and by depreciation charges on create a pre-tax profit of Y4bn. new business, but strong is forecast to slip to Y18bn.

On a more positive note, the group benefited from its strength in liquid crystal displays with strong demand for its LCD panels. The company is seeking to cut costs by restructuring its operations to reduce dependence on con-

help it raise non-consolidated sales in the current year by 2 per cent to Y1,180bn and net cent to Y90bn and its R&D expenditure by 6 per cent to

the country's economy.

for electronic goods seemed insatiable. To cope, the company, which

change, too, if it is to maintain

building in Tokyo, Mr Kawani-

opment and the densely-popu-

lated suburban landscape that stretches towards Mt Fuji -

reminders of Japan's hectic

growth over the past decade. But, just as the frenzied

development that spread

through Tokyo in the late 1980s

has ground to a virtual halt, Toshiba has had to face a

slump in its markets in the

The second-largest of Japan's

comprehensive electric machinery manufacturers, with products ranging from

nuclear power generators to

laptop computers, Toshiba has been hit by the downturn in

corporate and consumer spend-

ing that has afflicted many of

The slowdown in demand is

not expected to be reversed

soon. Nor is the recovery,

when it comes, likely to bring

back the days when demand

Japan's key industries.

environment '

past few years.

Michiyo Nakamoto reports on Toshiba's response to a three-year profit slide restructuring of its operations. R Tsuyoshi Kawanishi, senior executive The need is pressing; when vice-president of Toshiba reports its results Toshiba, becomes animated as today, it is likely to unveil a he outlines the challenges facing his company and all of profits for the third year run-Japan's electronics industry.
"In the 21st century, the electronics industry will change," ning to Y85bn (\$773m), with

net profits falling to Y20bn, or less than one-sixth of their he says. "Toshiba will have to level three years ago. After the three-year slide in its leading edge in the new profits. Toshiba and other Japanese electronics companies From his office on the 38th floor of Toshiba's headquarters are concerned their business environment is undergoing fundamental changes requiring a comprehensive review of how shi enjoys a panoramic view of the city harbour under devel-

they do business. Mr Kawanishi sees Japanese electropics companies being forced to abandon aspects of their traditional management practices, such as emphasising market share over profits.

There is little likelihood, for instance, that they will be able to continue to rely on growing markets to increase profits. instead, they will have to place a greater emphasis on return on investment.

The cost of funding has risen since it has become difficult to

changes we need to restructure The recovery, when it comes, is unlikely to bring back the days when demand for electronic goods seemed insatiable.

Additionally, the effects of

international trade friction, the

need to bring new products to

market speedily and spiralling

costs mean that companies

"To take advantage of those

raise capital on the Japanese our organisation," Kawanishi says. equity market. This means companies have to be much Tosbiba is putting together a more selective in their investfive-year business plan. This ments than a few years ago when they competed to invest follows a review of businesses aimed at weeding out those not making returns and at determining which

must set up transnational alliances to improve admits. One example is cathode ray tubes, which have not been profitable for Toshiba co-ordination between their core skills and realise their

committed to.

but have been manufactured because they contribute to its Although retrenchment is anathema to Japanese business, Toshiba has begun offloading some of its less profitable businesses as

areas the company will remain

"There are businesses that

never made a profit and those

that once made profits but no longer do," Mr Kawanishi

·88 80 92

Share orice (V)

1,200

Pre-tax profits (Von)

opportunities arise. Last month, it revealed it had sold its 69 per cent stake in Onkyo, specialised audio manufacturer, medium-sized

auto-parts maker. In March, it reduced its stake in Toshiba Steel Tube from 50 to 25 per cent when its subsidiary was merged with a wholly-owned subsidiary of Nippon Steel.

#### Time to weed garden of electronic delight Nippon Oil shares rise despite fall Meanwhile, it has concentrated investment in in earnings strategic product areas such as

By Wayne Aponte in Tokyo

flash memories, in which it has

A semiconductor memory chip plant in central Japan, which started producing this

month, will give Toshiba the

capacity to double its 4-megabit D-Ram output. As

Mr Barry Dargan, analyst at S G Warburg Securities, points

out, it makes Toshiba the

world's largest producer of

memories just as the memory chip market emerges from a

rising strongly. Mr Dargan says its strength in flash

memory chips, which store

information even when the power is turned off and do so

much faster than disk drives,

will pay off as the market for

But prospects are still

uncertain in many of Toshiba's

business areas as demand

remains weak, particularly in

Japan, while the yen's strength

continues to cast a cloud over

Toshiba also has a high level

of net debt, at Y731bn, or

almost 62 per cent of equity

Yet it is still committed to

maintaining its costly lifetime

employment system and will

employ about as many graduates next year as it

As it pulls itself out of the

slump and prepares for

recovery, much depends on how far Toshiba can change

from the old ways to

businesses which will earn the

concentrate instead

siggest returns.

always has.

flash memories grows.

nged slump and prices are

a tie-up with IBM.

NIPPON Oil, Japan's largest announced a 1.6 per cent fall in pre-tax profits to Y43.3bn (\$394m) for the year to March, and blamed the ven's appreciation for the price cuts on its energy products.

Net profits dropped 6.9 per cent to Y30.6bn on sales of Y1,995.9bn, down 1.6 per cent. The company's shares, however, rose Y14 on the news to end at Y853 on the Tokyo stock exchange yesterday.

Earnings per share fell to Y25.35 from Y31.05 the year before.

Nippon Oil estimates pre-tax profits will fall by 7.6 per cent to Y40bn in the current year. making a third consecutive annual decline. It expects overall sales to inch up 0.2 per cent to Y2.000bn .

in response to Japan's ecopany plans bond redemptions by taking about Y100bn from its reserve funds, a move that contributes to the lower profit

forecasts.

● Mitsubishi Oil, the Tokyobased refiner and distributor. announced its pre-tax profits the year to March.

Net profits dropped 21.6 per cent to Y10.6bn, while total sales gained 6.7 per cent to YI,111bn. The company estimates pre-tax profits will grow by 2.6 per cent to Y25bn this

buoyed by shipbuilding

left them with full order books RESULTS AT Mitsubishi and reduced competition. Heavy Industries and Kawa-Orders slowed last year, but most still have a backlog. Mit-subishi's shipbuilding and steel saki Heavy Industries, the Japanese machinery makers, were structures division sales rose

> were 4.8 per cent lower, and aircraft and special vehicles were down 10.5 per cent. For the current year, MFII expects sales and profits to be about the same and made no specific forecasts. However, orders for new vessels were down 18.6 per cent last year, though power system orders

gained 30 per cent. Kawasaki's ship sales were 43 per cent higher, though new orders slumped 60 per cent. Rolling stock sales were up 15.6 per cent while sales of aerospace equipment were just 0.3 per cent higher.

25.3 per cent; machinery sales

yen will put their export divisions under increased pressure in coming months, but Kawa-

employs 168,000 worldwide, has in new equipment and busiundertaken a wide-ranging Fanuc blames economy for

44% slide in pre-tax profit

FANUC, the Japanese machine tool maker, blamed a 44 per cent fall in pre-tax profit to on the curtailing of capital spending by manufacturers

Fanuc, like other Japanese

those of factory automation equipment 27.8 per cent lower and robot sales 21.5 per cent down. Orders in the two areas were equally weak, though the company is hoping for a 1.9 per Both companies fear that the cent rise in sales this year.

All of these securities having been sold, this announcement

appears as a matter of record only.

Industrie Natuzzi S.p.A.

8,400,000 American Depositary Shares ("ADSs")

Representing

8,400,000 Ordinary Shares

These securities were offered internationally and in the United States.

International Offering

1,680,000 American Depositary Shares

S.G. Warburg Securities

**United States Offering** 6,720,000 American Depositary Shares

their own expension of production during the late 1980s. Most Japanesa manufacturers now have under-utilised production lines and little incentive to buy the sort of equipment in which Fanuc specialises.

For the current year, Fanuc and the yen's appreciation. Sales during the year fall 24.4 per cent to Y117.7bn, with forecasts a further fall of 6 per cent in pre-tax profit to Y27.6bn, though the appreciation of the yen in recent weeks is likely to put further pressure on its profits in coming • Hitachi Construction

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Arnhold and S. Bleichroeder, Inc.

Deutsche Bank

Machinery's pre-tax profits slipped 89.8 per cent to Y2.7bn. but the company expects an increase in infrastructure machinery companies, suffered from continued trimming of

May 13, 1993

**NEW ISSUE** 

All of these securities having been sold, this announcement appears as a matter of record only.

May 11, 1993

8,550,000 Shares

## ZRC

## Zurich Reinsurance Centre Holdings, Inc.

Common Stock

These securities were offered internationally and in the United States.

International Offering 2,150,000 Shares

Credit Suisse First Boston Limited

Donaldson, Lufkin & Jenrette

J.P. Morgan Securities Ltd.

Smith Barney, Harris Upham & Co.

Deutsche Bank ABN AMRO Bank N.V. **Swiss Bank Corporation** 

N M Rothschild & Sons Limited

Banque Indosuez

**Smith New Court Securities Limited** 

J. Henry Schroder Wagg & Co. Limited

**UBS Limited** 

United States Offering 6,400,000 Shares

The First Boston Corporation

Donaldson, Lufkin & Jenrette

J.P. Morgan Securities Inc.

Smith Barney, Harris Upham & Co.

Bear, Stearns & Co. Inc. A.G. Edwards & Sous, Inc.

Alex. Brown & Sons

Goldman, Sachs & Co.

Inversed Associates, Inc. Lehman Brothers

Dillon, Read & Co. Inc.

Merrill Lynch & Co. PaineWebber Incorporated

S.G. Warburg Securities

**Prudential Securities Incorporated** 

Salomon Brothers Inc Dean Witter Reynolds Inc.

Allen & Company

Wertheim Schroder & Co.

Robert W. Baird & Co.

Gemina S.p.A. acted as a financial advisor to Industrie Natuzzi S.p.A. in this transaction.

Lazard Frères & Co.

Morgan Stanley & Co. Oppenheimer & Co., Inc.

Kemper Securities, Inc.

Kidder, Peabody & Co.

Northington Capital Markets, Inc.

Bear, Stearns & Co. Inc.

A.G. Edwards & Sons, Inc.

Credit Suisse First Boston Limited

Cazenove & Co.

Credito Italiano

Kleinwort Benson Limited

The First Boston Corporation

Goldman, Sachs & Co.

**Lehman Brothers** Salomon Brothers Inc Wertheim Schroder & Co.

By Nikki Tait in New York

TANDY, one of largest US consumer electronics retailers and manufacturers, yesterday abandoned plans to spilt itself into two independently-quoted companies - one representing its retail operations and the other its manufacturing arm.

Instead, the Texas-based group said it would sell part of its personal computer manufacturing operations to AST Research, a California-based manufacturer of IBM-compatible desktop and notebook computers, and then divest much of the remaining manufactur-

ing business. "Our primary strategic thrust is retailing, as previ-ously announced," said Mr John Roach, Tandy's chair-

AST said the purchase price for the PC assets was estimated to be no more than \$175m, which would be met either in cash and three-year promissory notes or entirely in

The operations it plans to buy include the GRiD brand of products, Tandy-GRiD Europe, and certain computer manufacturing plants in Texas and

GRID Systems, which Tandy acquired in 1987, is believed to

By Alice Rewethorn in Paris

THE Paris stock market

authorities have called in

police to investigate share dealings in Yves Saint-Leurent,

the French fashion house.

prior to the announcement of a

sharp fall in six-month profits

Dealings in YSL, which has

been rocked by controversy since its FF13.6bn (\$650m) take-

over earlier this year by the

Elf-Sanofl pharmaceuticals

group, have for some months

been under investigation by

Opérations de Bourse (COB),

Commission des

last autumn.

Police to investigate

share dealings in YSL

have lost money recently and has been retrenching after an ambitious expansion programme. Its president recently

Tandy will take a charge of around \$70m in the second quarter to end-June as a result of this divestment. The company announced in January it planned to divide itself into two separately-quoted companies - with the manufacturing arm being known as TE Elec-

Shareholders would have received shares in TE Electronics as a tax-free "dividend". Yesterday, Mr Roach said

Tandy had decided the sale route would strengthen its balance sheet and increase future income potential. The company would retain "limited strategic manufacturing units", he said, although these were not

Mr Roach has being putting good deal of emphasis on Tandy's efforts to revive its big retail operation. On the one hand, it has developed a new "superstore" concept called "The Incredible Universe", and opened the first two outlets both about 150,000 sq. ft. - last year. But the Texas company also plans to open a series of "small stores". under the

The COB yesterday announced that "a significant

number of YSL shares" were

bought in off-market dealings

by foreign investors in the

weeks before the publication of

the company's interim results

The results revealed an

unexpectedly steep fall in YSL's net profits from FFr2.6bn in the first half of

1991 to FFr41m in the same

French market sources sug-

gest that 2 per cent of YSL's

shares changed hands on Sep-

tember 17 and September 18.

on September 21.

period last year.

than the market, which increased by 21 per cent, the company said. "Radio Shack Express" fascia. Mr Barth said the com would continue to target the

> pricing.
> In North America, Compaq's portables market share rose by 65 per cent, reaching 17.6 per cent for the first quarter,

> end of last year. The company's success in notebooks contrasts with that of rival Dell Computer, which on Tuesday reported a steep fall in first-quarter income as a result of delayed

released second-quarter figures showing net income up 31 per cent to \$80m, or 26 cents a share, on revenue 25 per cent

## Computer optimistic on outlook

in New York

COMPAQ Computer expects a strong second-quarter performance, the company said yes-

Mr Andreas Barth, senior vice-president, Europe, said his forecast was based on the first signs of economic recovery in Europe and the surge in demand generated by the introduction of the 486SLbased Compaq Conturn and Compaq LTE Lite notebook ranges in March and May.

First-quarter net income, reported last month, jumped to \$102m, or \$1.23 a share. from \$45m, or 53 cents, on revenues 106 per cent higher at

The company confirmed in a statement that it took the lead in the European portable PC market for the first time in the quarter. The group held a 22 per cent market share in value terms and a 17.5 per cent market share in unit terms. according to Dataquest, a mar-

First-quarter portable ship ments grew by 89 per cent over the same period last year, more than four times faster

**European market with product** introductions and aggressive

against 11.4 per cent at the

and cancelled notebook pro-

• Novell, the US computer networking company,

## Amax deal enriches Cyprus Minerals' core

Laurie Morse examines prospects of a new power in the coal and copper industries

chairman of Minerals, chairman of Cyprus enhanced his reputation as something of a corporate fox. On Tuesday, he snapped up the assets of undervalued Amax, the US mining group, at a point when analysts believe copper and aluminium markets could be close to the bottom.

Mr Ward and his Amax counterpart, Mr Allen Born, agreed to a merger as Amax struggled with \$2.54bm in long-term debt, declining revenues from sagging metals prices, and lack of sufficient capital to expand its core business.

Both men are respected veterans of the mining business, and their alliance, analysts say, show they are taking a realistic view of world competition and market conditions.

"We are going to see more of these strategic alliances within the mining industry, as companies cope with the globalisa-tion of the business and the effect the collapse of the CIS has had on world commodity prices," says Mr Vahid Fathi, analyst with Kemper Securities in Chicago. "Mining is in a very dynamic situation right

Mr Ward, who moved to Cyprus a year ago after nearly

R Milton Ward, two decades at the US natural resource company Freeport McMoRan has earned a reputation as an effective cost-cut-

He and Mr Born, who went to Amax from Placer Dome, will share the new company's chairmanship, but Mr Ward will be chief executive officer. In acquiring Amex and creating Cyprus-Amaz, Mr Ward

has continued to focus on two primary businesses - coal and copper. The deal involves the exchange of one Cyprus share for two Amax, subject to adjustments for price fluctuations in Cyprus stock. The new company will be North America's second-largest

copper producer, with reserves of 2.6bm tons of mineable ore. Last year. Cyprus produced 660m pounds of copper, and has a \$200m capital expenditure programme under way to reduce copper production Trom Amax, Cyprus will

get ibn tonnes of new coal reserves and, com-bined, the two companies will produce about 60m tons of coal annually. Cyprus will add its new 40 per cent interest in Australia's McIlwraith McEacharn to the deal. That com-



Milton Ward: focusing on two

pany, whose markets are mainly Pacific Rim countries. produces 11m tons of coal a

Cyprus-Amax will also have a 40 per cent stake in Amax Gold, which has annual production of about 250,000 ounces and reserves of about 8.6m Cyprus has shed some gold

operations in Australia and New Zealand, but gold will be included in the combined company's commodity portfolio. Cyprus is already in talks to acquire several high grade gold

the world.

The new company will also have dominant positions in lithium, which is used in aluminum smelting, and molybdenum, used as an alloy in steelmaking. Amax's oil and natural gas subsidiary will be part of the merger, but Mr Ward admits the business is not a good fit with his commodity strategy.

Notably, the new company will not have aluminium operations. Amax's large Alumax arm will be spun off independently to Amax shareholders before the merger.

"It is a very nicely struc-tured deal. Cyprus didn't have to take the aluminum business," says Mr Tom Hess, research analyst with Northern Trust Co.

With most metals markets in the middle of a 13-year decline, analysts say the Cyprus/Amax deal has substantial potential once metals prices begin to recover. In the meantime, \$100m in immediate cost savings are projected, through staff redundancies and closing Amax's New York office.

The merger will also allow a fresh look at Amax's remain-ing businesses, which Mr Ward

deposits in locations around ing to be a lowest cost producer, as he has done at

"Milton Ward is going to have huge potential to the unside over the next several years, and very little potential for downside. If metals prices go lower, other companies with higher costs, will be forced to curtail production

first," notes Mr Hess. max's Alumax spin-of is receiving close Wall Street scrutiny. 'It will be a pure aluminum play, says S.G. Warburg metals

analyst Mr. Victor Lazarovici "It has more primary metal to sell in proportion to its size than any other company. While the company recorded an operating loss in 1992 because of expenses related to the start up of its new Quebec smelter, Alumax, which turned in \$2.4bn in sales last year is one of the world's lowest cost aluminium producers.

It is valued at around \$850m If aluminium prices rise 30 per cent, that valuation could jump to about \$1.6bn, analysis say, and such market responsiveness could they add make it a popular bet on the direction of the world

Canadian pulp

deal for Finns

company, as part of a deal in which West Fraser is to

acquire Enso's interest in a

## Strong quarter for Bank of Montreal

Robert Fleming teams up with SA broker

By Bernard Simon in Toronto

BANK of Montreel and Bank of Nova Scotia, Canada's third and fourth-biggest banks respectively, set the ball rolling on Canadian banks' second-quarter earnings reports yesterday, with BMO posting

MARTIN & Co. South Africa's

up with Robert Fleming,

top stockbroking firm, is team-

the UK merchant bank, in

a partnership aimed at devel-

oping their international

By Philip Gawith

in Johannesburg

sharp drop in return on shareholders equity. BMO's earnings rose to C\$173m (US\$136m), or 63 cents a share, in the quarter to April 30 from C\$143m. or 53 cents, a year earlier. Return on the stronger performance. shareholders equity climbed to lts earnings climbed by 21 14.2 per cent from 13 per cent.

mining brokerage business.

Robert Fleming will buy from McIntosh Securities, a

listed Australian broker, its

half-stake in McIntosh Martin,

a joint venture with Martin &

McIntosh Martin, which trades

When the deal is completed,

per cent, but Bank of Nova Scotia's income edged up only fractionally. BNS suffered a Loan loss provisions widened to C\$163m from C\$125m, but the level of non-performing loans at the end of the quarter was 14 per cent lower than three months previously. The bank's loan-loss forecast

for 1993 remains at C\$650m, up from CS550m last year. The stronger second-quarter performance was ascribed to a

in South African securities held by non-residents, will be

Robert Fleming intends sup-

porting Martin & Co in widen-

ing the scope of the joint ven-

ture, particularly in the

renamed Copthall Martin.

corporate finance area.

7 per cent growth in loan volumes and the receipt of C\$24m before tax from the sale of nonperforming Brazilian bonds. Bank of Nova Scotia's sec-

ing director of Martin & Co, said: "We are delighted to be involved in a firm of Flemings'

"What particularly attracted

us was its global network, its

roots in the investment busi-

ness, and an affinity with its

DAIMLERBENZ

ond-quarter earnings were C\$172m, up from C\$171m. Pershare earnings dipped to 71 cents from 75 cents, while return on equity fell to 14.2 per

By Bernard Stron ENSO-GUTZEIT, of Finland, 🛦 to become a minority share holder in West Fraser Timber, a mid-sized Canadian forestry

> pulp and paper joint venture in British Columbia West Fraser will pay C\$95m' (US\$74.8m) and issue 2m common shares in return for Enso's 50 per cent stake-in the Eurocan venture, giving Enso a 9.6 per cent stake in West Fraser. West Fraser will also pre-pay about C\$43m owing on

a note issued to Enso.

West Fraser owns the other 50 per cent of Eurocan, which has interests in four sawmilis and a pulp and paper mill.

## ACCOR

Capital: French France 241 L341.400 Hend Office : 2, rue de la Mare Neuve - 91000 EVRY (France) Registered Head Office : Corbell Essennes II 602 036 444

SECOND NOTICE TO HOLDERS OF 2 1/25 1/64-1999 BONDS OF USD 1,000 EACH CONVERTIBLE INTO ORDINARY SHARES OF ACCOR.

The holders of 7 1/2% 1984-1999 bonds issued by ACCOR and convertible into ordinary states who were called for May 19, 1993 being unable to meat validly for lock of quarum, are again called to a General Meeting at 37, rue do Rocher - 75008 PARIS (France), on June 3, 1993 at 2 p.m., in order to consider the same resolutions as the case for first meating, that is:

- Shareholders approval for renunciation of their preferential right to subscribe shares that Ordinary and Extraordinary General Meeting on May 24, 1983 (possibly postponed to June 4, 1983) will authorise the Board of Directors to
- Shareholders approval for reaunciation of their preferential right to subscri warrants to purchase shares that the Ordinary and Extraordinary General Meeting of Shareholders on May 24, 1983 (possibly postposed to June 4, 1893) will authorize the Board of Directors to issue.

Shareholders approval for requirelation of their preferential right to subscr

- stocks and shares combined in units giving screes to capital that Ordinary and Extraordinary Coneral Meeting on May 24, 1993 (gossibly postponed to June 4, 1983) will authorise the Board of Directors to issue. lars approval for renunciation of their preferential right to subscribe
- Shareholders approval for renumentage of source preservation right to second ACCOR abares issued on surrendering stocks issued by subsidiaries directly or indirectly hold by ACCOR for more than 50% of their capital, that Ordinary and Extraordinary General Meeting on May 24, 1983 (possibly postponed to Jame 4, 1983) will authorise the Board of Directors to issue. Shareholders approval for renunciation of their preferential right to subscrib
- shares issued on taking up options that Ordinary and Extraordinary General Menting on May 24, 1993 (possibly postponed to June 4, 1993) will authorise the Search of Directors to issue.
- A Decision on the method of recording the decoments of the Cleaners's Martine

To authorize the bondholders to attend or to be represented at this meeting, the bonds or their deposit receipts must be deposited at least five days before the date of the meeting, at the offices of the banks having participated in the plocing of these bonds and from whom proxies or admission cards can be requested.

NOTICE OF PREPAYMENT

NIB Nordiska Investeringsbanken

DKK 400,000,000 8 1/4 % Notes due 1996

Pursuant to Article 4 section (b) Redemotion of the Terms and Con-

ditions of the Notes, notice is hereby given that NIB will prepay

on June 26, 1993, the total amount remaining outstanding of the above-mentioned Notes (i.e. DKK 347,000,000) at 101% of their

Payment of interest and premium due on June 26, 1993 and

repayment of principal will be made in accordance with the Terms

Interest will cease to accrue on the Notes as from June 26, 1993. Payment will be made at the Fiscal and Principal Paying Agent and

Kredietbank S.A. Luxembourgeoise

43. boulevard Royal

L-2955 Luxembourg

Knedlethank N.V.

7th Floor, Exchange House

Primrose Street

London EC2A 2HQ

at any of the following paying agencies listed below:

and Conditions of the Notes.

Kredietbank N.V.

Arenberostraat 7

B-1000 Brussels

Luxembourg, May 27, 1993

THE BOARD OF CURECTORS

Unibank A/S

2, Torvegade

DK-1249 Copenhagen K

The Fiscal and Principal Paying Agent

Luuembourg

#### **BCEN-EUROBANK**

The Annual General Meeting of BCEN-EUROBANK was held on the 10th of May 1993, at the request of the Board of Directors. The Meeting was chaired by Mr Bernard Dupuy, Chairman of the Supervisory Council. The Central Bank of Plussia was represented by Mr Viktor Guerascheriko. The Meeting approved the Barik's accounts for 1982, as well as the report of the Board of Directors.

The Board of Directors, chained by Mr louri Ponomerev, decided for the first time to publish consolidated accounts in order to get a muximum clarity of the banking accounts, incorporating our main substitutions: FMACO in Jersey and

Despite the adverse, economic citrusts – and in particular the slowdown in intermetional trade, the difficulties experienced by the countries of Eastern and Central Europe in their transition to a market economy, the Bank had a satisfactory performance, ending the financial year with a consolidated profit of 17 million Franch Francs.

The key feature of 1992 was the rigorous respect of the norms defined by the French Banking authorities concerning sovereign and commercial debt provisions. This was made possible by setting saids provisions in the amount of 4 billion French France in the course of 1992.

The Board of Directors is continuing its commercial strategy on the basis of the

A strong balance-sheet with capital and reserves of 3.5 billion France and total assets of 13.3 billion France.

A network of close banking relationship countries of Eastern and Central Europe.

Close working relationships with new trading and financial partners in the countries of Eastern Europe based on decades of shared experience.

Unrivalled expertise in the field of international trade

BRADFORD & BINGLEY

Floating rate notes 1996

Notice is hereby given that

the notes will bear interest

at 6.15% per annum from

25 May 1993 to 25 August 1993. Interest payable on 25 August 1993 will amount

to \$155.01 per \$10,000 note.

Agent: Morgan Guaranty Trust Company

GANADIAN PACIFIC LIMITED

Incorporated in Canada)

CANADIAN PACIFIC LIMITED
PROPETUAL 4% CONSOLIDATED
DEBENTURE STOCK
NEW BRUNSWICK RALLWAY COMPANY
45 DEBENTURE STOCK

CALBARY & EDMONTON RAILWAY COMPA 4% DEBENTURE STOCK

in preparation for the payment of the half-yearly interest due July 1 1993 on life above Stocks, the transfer books will be closed at 3.30 p.m. on June 4 1993 and will be re-opened on July 2 1993.

is the second of the second of

D. P. NEAST

**JPMorgan** 

000,000,0012

Alongside with traditional banking facilities, SCEN-EUROBANK offers to companies and individuals in the Eastern Economic Community, Russia and other countries new products and services adapted to the new economic

**ECENTEURIOBANK** 79/61, Bld Haussmann 75006 PARIS

Lloyds

Eurofinance N.V.

£200,000,000

Guaronteed Flooting Role
Notes Due 1996
For the three months May 26,
1993 to August 26, 1993 the
Notes will carry an interest rate
of 6.125% p.a. with a coupon
amount of £77.19 in respect of
25,000 nominal of the Notes and
£385.96, in respect of £25,000
nominal of the Notes payable on
August 26, 1993.

Citibank, N.A. (Issuer Services) London, Agent Bank

COMMENT

TRAVELS

11110

WORLD

CORRECTION NOTICE

**BANCO DI ROMA** U.S. \$175,000,000

Floating Rate Depositary Receipts Due 1997 Putable in 1993/95 (the "Depositary Receipts")

We refer to the Notice of Repayment at the option of the Receiptholders which appeared in the Financial Times on 19th May, 1993 and wish to advise that all references to the 2nd August, 1993 in the said notice abould reed 5th August, 1993.

BANCA DI ROMA ncting through its London Brane

Dated: 27th May, 1993

Our 97th Shareholders' Meeting resolved on May 26, 1993, to pay for the 1992 financial year dividends totaling DM 604 million from the unappropriated profit of DM 5,094 million (DM 13 on each eligible ordinary share of DM 50 par value) and to transfer the extraordinary profits of DM 4,490 million arising from changes

Dividend Announcement

in valuation methods to retained earnings. The dividend will be paid after deduction of 25% capital-yields tax against submittel of Dividend Coupon No. 58, commencing May 27, 1993, at any of the paying agents named in Issue 97 of the Federal Gazette (Bundasanzeiger) of May 27, 1993.

In the United Kingdom, payment will be made by Deutsche Bank AG, London Branch.

Under the conditions provided by the English-German Double Taxation Agreement of November 26, 1964, amended by the protocol dated March 23, 1970, the German withholding tax will be reduced to 15 % for shareholders resident in the United Kingdom. To claim the refund, shareholders are required to aubmit an application for refund by December 31, 1997 at the latest. This application is to be addressed to the Bundesamt fuer Finanzen, Friedhofstrasse 1, D-5300 Bonn 3.

Payment in the United Kingdom will be made in Pounds Sterling converted from D-marks at the exchange rate prevailing on the day the dividend coupons are submitted.

Dalmier-Benz AG The Board of Management

#### U.S. \$100,000,000



#### Allied Irish Banks plc

**Undated Floating Rate Notes** Subordinated as to payment of principal

Interest Rate Interest Period

5½% per annum 27th May 1993 29th November 1993

Interest Amount per U.S. \$10,000 Note due 29th November 1993 U.S. \$271.25

imption amount per Note Yen 90,937,439

The date of Redesop June 14, 1993

Credit Suisse First Boston Limited

#### NOTICE OF REDEMPTION Sparbankernas Bank iese Yen 5,000,000,000 6.4 Per Cant, Notes due 1993

MOTICE IS HEREBY GIVEN that due 1993 purnum to Condition II of the forms and Condition II of the forms and Conditions of the Notes, Swedbank will redeem the Roces, based on the closing price of the Hiddel Stock Average 225 as May 24, 1993 being, 20,476.16, as follows: NOTICE IS HEREBY GIVEN that unsuant to Condition 4(A) of the Terms and Conditions of the Receipts, Banca Nazionale del Lavore will redeem the Receipts as follows:

Ten 8.519.818 May 27, 1993

#### Stuttgart-Möhringen, May 27, 1993

1. rue Schiller L-2519 Luxembourg R.C. Luxembourg Nº B7.635

#### NOTICE

is hereby given to the Shareholders that the Annual General Meeting of Shareholders of LLOYDS INTERNATIONAL PORTFOLIO SICAV will be held at the registered office, 1 rue Schiller, 2519 Luxembourg on June 15th, 1963 at 11.30 a.m. with the following agenda:

Submission of the reports of the Board of Directors and of the Authorised Independent Auditor; Approval of the annual accounts as at 31 December 1992 and allocation of the net results;

allocation of the net results;
3. Discharge to the Authorised Independent Auditor for the financial period ended December 31, 1992;
4. Election of the Authorised Independent Auditor for the new

5. To transact such other business as may properly come before the

Resolutions on the agenda of the Annual General Meeting will require no quorum and will be taken at the insjority of the votas-expressed by the chareholders present or represented at the meeting. By order of the Board of Directors.

#### NOTICE OF REDEMPTION Banca Nazionale del Lavoro NOTICE to the holders of the outstanding Japaness Yen 5,000,000,000 6 per cent. Depositary Receipts

Baltica Bank A/S ¥15,000,000,000

6.6 per cent. Guaranteed Notes due 1995 NOTICE IS HEREBY GIVEN to the holders of the above Notes that, at the Meeting of such holders convened by the Notice of Meeting published in the Financial Times on 4th May, 1993 and held at 11.00 a.m. (London time) on 26th May, 1993, the Extraordinary Resolution set out in such Notice was

on 20th May, 1993, the Extraordinary Resonation set out in such Notice was duly passed. Accordingly the modifications to the Terms and Conditions of such Notes and the Fiscal Agency Agreement referred to in such Notice have been made with effect from 26th May, 1993 and the Notes will be redeemed at their principal amount on 28th May, 1993, BALTICA BANK A/S 27th May, 1993

Britanni

LLOYDS INTERNATIONAL PORTFOLIO SICAV 

Benediction

Kara Back Back

By Jane Fuller in London and Patrick Harverson in New York

THE UK government bond market gave a warm response to the Bank of England's £3bn gilt auction yesterday, with stock in the auction area gaining about % of a point. At the average accepted price, the yield on the 7% per cent gilt due 2006 was 8.39 per cent, and the tail, the difference between the average and

#### GOVERNMENT BONDS

highest accepted yield, was

"The tail tells the story," one economist said. It was a better sign of the auction's success than the cover, which at 1.56 times was a little lower than expectations of 1.6 to 1.7 times.

Partly because of the much more realistic expectations, this auction was much better received than the last one, which was 1.77 times covered.

One of the positive factors as renewed foreign interest. Gilts' underperformance of continental European markets, notably France, over the past

few weeks had creative an attractive yield differential. The strengthening of the pound and less anxiety about

inflation also provided a much more favourable background. The best performance came at the longer end, with 10-year stock and beyond gaining about 2 points. The techniques about % points. The "when issued" price on the new gilt went up about % point. This was, however, the area of the market which had seen the most underperformance ahead of the auction.

■ GERMAN bunds lost much of the ground gained since Monday in late profit-taking yesterday.

Initially, another mildly positive state inflation figure helped sentiment, but it was not enough to prevent a correction to the sharp rise that occurred earlier this week. As expected, the Bundesbank

left the repo rate unchanged at 7.60 per cent and that had little effect on the market. However, the need to support the D-Mark has weakened hopes that the council will cut key rates next week and this exerted a more negative influence.

FT FIXED INTEREST INDICES Many 26 Many 25 Many 24 Many 21 Many 20 ago High " Low Cont.Secr.(IRC) 94.99 94.84 94.80 94.94 94.89 85.58 96.04 93.28 Pland Inferred: 111-47 111.33 111.36 111.33 111.25 105.53 113.25 105.57 113.25 105.67 Beals 100: Covernment Securities (Inferred: National Library Pland Inferred: Library 100: Covernment Securities Ingl. since complation: 127-40 (97/1/35), low 49.18 (0/1/75) Pland Inferred: high since complation: 127-40 (97/1/35), low 49.18 (0/1/75) GILT EDGED ACTIVITY May 25 May 24 May 21

> Spanish government bond market's lack of reaction to the plummeting peseta raised con-cern that longer-dated stock might open lower today.

One economist described the government bond market as being "out of sync" with cur-rency movements and with pre-election talk of more inter-

■ NEWS of flat durable goods orders lifted longer-dated US Treasury prices yesterday morning, while the short end of the market idled ahead of the afternoon auction of fivevear notes.

By midday, the benchmark 30-year government bond was up 🛔 at 101 🚻, yielding 6.986 per cent. At the short end of the market, the two-year note was slightly firmer, up & at 99%, to

yield 4.207 per cent.
The day's economic news was bullish for bonds. It showed no change in durable goods orders last month - analysts had been expecting a rise in orders of up to 1 per cent. The figures, which suggested that the economy continues to struggle to gain meaningful momentum, buoyed prices at the long end of the market, bringing the 30-year yield decisively below 7 per cent.

Shorter-dated paper, however, held steady as investors and dealers sat tight, awaiting the afternoon sale of \$11bn in five-year notes.

■ THE yen's rise to an all-time high against the dollar pro-vided further impetus to the

		Coupon	Red	Price	Change	Yield	Week.	Monti ago
AUSTRALIA		9.500	08/03	113.5993	+0.074	7,56	7,60	7 4
BELCEUM		3,000	03/03	110.9500	+0.050	7.39	741	7.54
CANADA .		7.250	06/03	97.6500	•0.200	7.00	7.74	7.3
DENMARK		8.000	05/03	103.3700	-0.180	7.51	7.47	7.59
FRANCE	BTAN QAT	8.000 8.500	05/98 04/03	105,4843 109,0100	-0.046 -0.100	6.66 7.19	6.61 7.15	8.63 7.11
GERMANY		6.75	04/03	99,1850	-0.220	6.86	6.85	6.54
ITALY		11.500	03/03	97.5300	-0.080	12.28†	12.26	12.8
JAPAN	No 119 No 145	4 800 5.500	06/39 03/02	101,3338 105,8125	+0.384 +0.264	4.52 4.57	4.83 4.64	411
NÉTHEPILA	NOS	7.000	02/03	101.9500	0.140	11.71	6.57	6.5
SPARI		10.300	08/02	95,9474	+0.003	11.02	11.00	11.54
UK GILTS		7,250 8 000 9,000	03/98 06/03 10/08	100-23 99-31 105-02	+4/32 +11/32 +15/32	7.08 8.00 8.41	7.11 8.06 8.45	7.05 7.96 6.35
LES TREASE	MY:	6.250 7 125	02/03 02/23	99-01 101-24	-3/32 +1/32	6.38 6.36	6.34 7.04	5.9X 6.81
ECU (Frenci	n Gavri)	8.000	04/03	103.6300	+0.080	7.46	7.48	7.55

Japanese government bond The combination of the soar-

ing currency and the success of Tuesday's 10-year bond auction, which looked relatively cheap, provided bullish conditions in spite of the rise in the Nikkei stock market index. Domestic institutions, which had been sitting on their hands recently, sprung into life. With the 10-year area attract-

HEW INTERNATIONAL BOME INSTITUT

ing particular interest after the recent sell-off, the yield curve flattened. Between three and 10-year stock, the yield spread came down by half a dozen basis points.

In the cash market, the yield of the benchmark No 145 due 2002 came down from 4.63 per cent to 4.575 per cent during Tokyo trading, while the price of the September futures contract rose from 106.60 to 107.

## Rise in activity in convertible paper sector

By Sara Webb in London and Christopher Brown-Humes in

THE CONVERTIBLE bond market has seen a pick-up in activity, with deals from Amer of Finland, Ericsson of Sweden, and Société Générale in recent

Further deals are expected soon, with Lend Lease, the Australian financial services group rumoured to be considering a \$200m Euro-convertible

#### INTERNATIONAL EQUITY ISSUES

Amer, the Finnish consumer goods group, has announced terms for a \$75m Euro-convertible bond issue, the first time such an instrument has been launched by a Finnish com-

pany, The coupon on the 10-year bond will be 6.25 per cent, and its conversion price into Amer A shares will be FM144. This represents an 18 per cent premium to Tuesday's closing price of FM122 on the Helsinki stock exchange.

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The proceeds are being used to strengthen the group's bal-ance sheet and to raise the European profile of its Wilson Sporting Goods arm, which is already well-known in the US. The issue, which is being lead-managed by NatWest Securities and Postipankki, is being targeted at international

investors in Europe and the US, where the bonds were ced under a Rule 144a private placing. Société Générale hopes to raise FFr3bn with its global offering of deep discount con-vertible bonds. The bonds are

priced at FFr660 and are repay-

Shareholders in Sociéte Générale have priority subscrip-tion rights on FFr1.5bn of the

Investment bankers point out that, with the outlook for some of the European stock markets seen as "rather uncertain", convertible bonds can provide investors with a more "defensive" investment instru-

## Britannia launches unusual four-year floating-rate note

By Sara Webb

BORROWERS flocked to the Eurobond market in a variety of currencies, using fixed and floating-rate instruments yes-

Britannia Building Society launched an unusual floatingrate deal which Samuel Montagu, the lead manager, structured to provide separate additional detachable interest rently 6 per cent). rights, or ADIRs.

## INTERNATIONAL

The £100m, four-year deal had an issue price of 100 for the whole package, consisting of 99.71 for the notes and cou-

pon and 0.29 for the ADIRs. It is understood that the lead manager kept the ADIRs. which it pointed out are. instruments likely to appeal

to financial institutions".

The coupon is three-month Libor plus 15 basis points, and the ADIRs entitle the holder to receive 5 per cent minus three-month Libor if three-month Libor falls below 5 per cent.

The lead manager said the instruments would be of interest to investors who think Libor will be less than 5 per cent (three-month Libor is cur-Barclays Bank also tapped

the sterling sector, raising a further £100m tranche of perpetual, subordinated debt (known as upper tier two capi-tal) following its initial 2200m deal in early April.

The latest tranche was priced to yield 135 basis points over the 9 per cent gilt due 2008, whereas the initial tranche had a yield spread of 140 basis points at launch and tightened to 181 basis points in the secondary market.

The debt is callable at par after 15 years and if it is not called, the coupon will be refixed - either at the current level of 9.675 per cent or at 240 basis points over the five-year benchmark gilt, whichever of

the decision to Issue a further tranche was made in response to strong investor demand, particularly in the UK. In the course of the day it rose from the fixed re-offer price of 98.951. to 99.0625.

Elsewhere, Compagnie Bancaire, the specialised financial business owned by Paribas, aimed its five-year Ecul00m deal at the retail sector.

While the Danish referendum result a week ago was greeted as good news for the Ecu bond sector, there has not been much new issuance in Ecu since then. The deal is

Herrower LIS DOLLARS	Amount III.	Coupon %	Price	Manual Inc	Person %	Spread hp	Book namer
JDC Corp.(a)φ	140	1.125	100	Aut.1997	2.25		Nikko Europe
American Express TRS Coulds	125	64 8.25	99.9R	Jun.1998	0.2R	-	Lehman Brothers Inti.
Armer Group(c)§	75	8.25	100R	Jun 2003	3.36		NatWest Securities
YEN Mitsubishi Corp. Finance	10bn	4.36	100.1R	Sep.1995	0.2R		Sonwa International
D-MARKS Dautsche Finance Netherlanda	500	8.5	101.85	Jun. 1998	2	٠.	Deutsche Bonk
ITERLING Barcleys Benkid) Initannia Building Society(e):	100	9,875 ( <b>4</b> )	96.951R 99.43R	(c) Jun, 1997	0.76R 0.15R	+135 (9%-08)	Barcleys de Zoete Wedd Samuel Montagu & Co.
COLIS Compagnie Banosira(i)	100	7.25	99.6R	Jun.1986	0.3R	+40 (714%-95)	Paribas Capital Markets
TALIAN LIPIA Deimler-Benz Intl. Finance	128bn	10.5	101.275	Jun.2000	1.875	-	Desiration Starts Landon
INISS FRANCS				L			
Nest Japan Rallway Co. Faisei Oncho Co.toi+fa	200 70	4.75 1.875#	100.75 100	Jun.2000	-		UBS Nomura Bank (Switz.)

manager. Withware procedurest. SConventible. (9M8th equity warrants. (Floating rate note. SSemi-annual couper. R: fixed re-offer price; fees are shown at the re-offer level. a) Final terms fixed on 2/8/93, b) Coupon pays 3-month Libor + 0.375%. Callable at par on interest payment dates from June 1996. c) Convenion price: Markos 144. Exchange rate: 8,5243 Markos/6. Callable at par from 8/7/98. d) Fungible with the outstanding S200 learning on 7/4/98. Plus 43 days accrued interest. Callable at par in 15 years, then every 5 years, in not called, coupon will be reast a) Coupon pays 3-month Libor + 0,15%. Delives learning sand database interest rights (ADIPs) which were privately placed. The ADIPs antice holders to receive 5% - 3-month Libor, f) Spread was over relevant BTAN. g) Final terms fixed on 1/8/93. Callable on 30/8/95 at 102% declining by W36 semi-annually. Acceleration clause.

given the shortage of current coupon Ecu paper.

Daimler-Benz International Finance tapped the Eurobond market with a L125bn, seven-

be keeping the lira proceeds. The deal saw good demand in Germany, Benelux and Switportand from inventors who are

tapped the lira sector before. Deutsche Bank, the book-runner for the deal, said it looked at recent seven-year lira issues familiar with this blue-chip for reference, and the deal was name. The borrower has priced to yield 10.63 per cent.

## Pemex raises \$366m in asset securitisation debut

By Damien Freeer in Mexico City

PETROLEOS Mexicanos, Mexico's state oil company, has raised \$366m in an asset securitisation deal. The privately-placed debt, which has a maturity of 71/2 years, is backed by revenues from future oil exports and marks the first time Pemex has used such revenues to guarantee its debt. The securitised debt has a

single-A rating from Standard & Poor's, the US rating agency. This is the first time S&P has given an investment grade rating to long-term uncollateralised Mexican debt. Pemex will pay 165 basis points over US Treasury bills for the debt, which was placed with US institutions earlier this week. The deal was lead-managed by Citibank.

The negotiations over the securitised debt took nearly two years to complete. Within Mexico, the question of whether Pemex should back debt with future oil revenues is a sensitive one. Mexico's oil industry was nationalised in 1938, and the regulatory law that governs Pemex prohibits it from selling rights to oil reserves. The securitisation does not explicitly commit Pemex to produce or export oil. and is therefore legal.

Pemex is expected to take advantage of more securities. tion of debt now that the first issue has been successfully placed. It is also working on the securitisation of US Eximbank export credits for a \$250m debt issue to develop the Sonda de Campeche oil field, according to a report in El Financiero

#### MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE	RISES AND FALLS YESTERDAY	LIFFE EQUITY OPTIONS
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Sterling devaluation and exceptionals behind 4% improvement

## Courtaulds climbs to £193m

**By Paul Abrahams** 

THE DEVALUATION of sterling helped Courtaulds, the chemical materials group, reveal pre-tax profits up 4 per cent from £186m to £193m for the year to March 31.

The results were on turnover up 7 per cent from £1.94bn to £2.07bn. Operating profits moved to £208m (£206m).

However, at constant exchange rates, turnover, operating and pre-tax profits would have been lower by £121m, £12m and £6m respectively. The results were also helped

by exceptional items producing a £1.7m profit, compared with a £15.1m loss previously. Net debt fell by £11m to £222m, mainly due to a £49m

cash repayment from the UK pension scheme. The results were compiled according to the new FRS 3 accounting stan-We have held our own in sales and profits and main-

tained a strong balance sheet while not stinting on investsaid Mr Michael Pragnell, finance director.

Performance materials recovered from a poor first half to generate most of the group's



Sipko Hulsmans, chief executive (left) and Michael Pragnell. finance director: "we have held our own in sales and profits"

The light armoured vehicle project helped the division post a 50 per cent increase from £12m to £18m on turnover of £214m (£183m).

Coatings' profits fell from 259m to 258m, despite a strong performance in the Far East,

per cent from £233m to £216m. Demand for acetate products weakened, but cost-cutting and sterling's devaluation helped the business, said Mr Sipko Huismans, chief executive.

Fibres and films posted reduced trading profits of £71m (£73m) on increased turnover of £567m (£582m), mostly due to the acetate film joint-venture. Mr Huismans said the US market was proving difficult.

operating at 80 per cent capacity and the board would consider commissioning a second line later this year, said Mr

Operating profits in the Asia-Pacific market, which includes Australasia increased 12 ner cent to 28m (£25m) on sales of £230m (£205m). Asian profits alone increased 30 per cent on sales up 15 per cent.

European input fell to £114m (£115m) on sales up 4 per cent at £1.27bn (£1.22bn). Static North American profits of \$57m were reported on turnover up 14 per cent at £588m.

Earnings per share increased by 2.6p to 37.6p. The recommended final dividend of 10.20 makes a total of 14p (13p), up

## Ex-Guinness chief's payment defended

By Paul Taylor

SIR DAVID Plastow, chairman of the non-executive committee of Guinness, mounted a spirited defence yesterday of the controversial pay and pension arrangements made for Sir Anthony Tennant, former chairman of the UK drinks

The Guinness accounts, published earlier this month, revealed that in his last year Sir Anthony received a 24 per cent rise taking his salary to £777,000, a £204,000 annual top-up payment to take his pension to about £500,000, and a £50,000 consultancy fee, to be paid for two years. Yesterday Sir David, whose

committee of non-executive directors sets executive pay

RPC 4.3 times

oversubscribed

By Richard Gourlay

levels at Guinness, told shareholders at the annual meeting that there had been "a number of inaccurate comments" on the subject of executive remuneration, and "misunderstandings" on the issue.

However, when asked by one shareholder to reveal Sir Anthony's total pension pack-age he said the detailed arrangements were a private

"Is £500,000 correct?" pressed the shareholder. "I am not prepared to be specific," said Sir David, but he acknowledged that "the order of magnitude is about right." He stressed that Sir Anthony's pension reflected "his full 40-year working career," not just his 5-year period at Guinness, and that

the agreement to provide a

two-thirds pension was in his service contract, which had been "available for inspection." Sir David said the increase in Sir Anthony's final salary was made when the Guinness share price was at an all-time high and immediately after the com-pany announced record operat-

The packaging division

increased operating profits from £25m to £27m, on turn-

over of £260m (£244m). Sales of

tubes grew by more than 20

per cent, but the European

operations had a difficult year.

Chemicals' profits fell by

ing profits.
"His earnings were very much in line with top executive remuneration in this country," said Sir David, who added that the average paid to the chairmen of the top 10 companies in the UK was "comfortably more than Sir Anthony's remuneration for the final

The consultancy fee after his retirement was justified by Sir Anthony's "wide experience

One shareholder, who identified himself as "poor and ordinary," was concerned because Sir Anthony had become a director of two other companies after leaving Guinness. Sir David replied that what Sir Anthony did after he left the company was a matter for him, rather than Guinness.

Most of the other questions at the packed Guinness meeting related to the absence of shareholder perks and why the company was serving after-noon tea instead of something a little stronger.

They seemed pacified, how ever, to leave with a can of Guinness and a fifth of a litre of Johnnie Walker Black Label Scotch in a black velvet pouch

Investors seeking a stake in RPC, the rigid plastic packagfor more than 11 times the number of shares on offer. When the offer closed on

Tuesday, the intermediaries offer was 11.06 times sub-scribed. That means £128m of cash was chasing £11.6m of shares, one of the highest levels of oversubscription in recout intermediaries offers. On May 16 Cazenove placed

18.2m shares with institutions, representing 65 per cent of the issue. The total issue was therefore 4.3 times subscribed. Capital Radio turns in £4.7m

By Catherine Milton

A VOTE of confidence from London's popular music lovers cing pre-tax profits at Capital Radio, the London commercial music station, down from £6.29m to £4.65m in the six months to March 31.

The comparative figure was distorted by the inclusion of a £2.18m gain on a disposal taken to comply with the new FRS 8 accounting standard, which disguised an underlying improvement of 13 per cent.

Mr Ian Irvine, chairman, stressed that adult Londoners preferred Capital FM to Classic

FM. BBC Radios 4 and 1. It continued as market leader with 32 per cent of the adult listeners tuning in each week. we are enthusiastic about the prospects in the medium to long term, we continue to take

ate future. The company said that almost flat turnover of £16.1m (£16.2m), which included agency commissions, disguised an improvement in Capital Radio's sales to £14.5m (£14.2m). National advertising revenue was static but there was a "considerable increase

in local advertising revenue.

a cautious view of the immedi-

Turnover at Capital Group Studios fell to £1m (£1.2m) and the company broke even, com-(£11.1m) including the benefit of a February decision by the Copyright Tribunal which reduced Capital Radio's effective royalty payments to Pho-nographic Performance Limited, the representative of

interest receivable fell to £795,000 (£810,000). An accelerated unchanged interim dividend of 1.75p was paid on April 5. Earnings declined to 4.6p (6.3p).

record companies, from 6.5 per

cent to 5 per cent of turnover.

## **Flextech** in Family **Channel** venture

By Raymond Snoddy

FLEXTECH, the oil services company that transferred itself into a cable and satellite television operation, yesterday announced a joint venture to launch The Family Channel in

The two groups will share a satellite channel with the children's programmes during the day followed by the Family

Channel in the evening. Mr Roger Luard, of Plextech, said yesterday: "This is a very exciting development."

September as part of the new subscription scheme being launched by British Sky Broadcasting in the autumn. At least 10 channels will be launched as a new subscrip-

of IFE, said yesterday that he saw the joint venture with Flextech as a way into other international markets including Asia. From the beginning The Family Channel plans to make original programmes such as quizzes at its UK headquarters - the old TVS studios

Meanwhile, Flextech yesterday returned pre tax losses of £1.57m for the period February 18 to December 31 1992. Because of the sale of its oil services activities it said no

revenues increase in the final quarter of 1992 by 37 per cent. signed a contract with BSkvB (in which Pearson, owners of the Financial Times, has a significant stake) which "will have a positive impact on the

TCC", the group said. Furthermore, Flextech said

The board believes the joint venture will benefit from the forecasi increase in cable subscribers and dish owners throughout Europe.

## Mixed response to North West Water scrip option

estments Correspondent

mixed reviews from sharehold-

International Family Entertainment, which owns The Family Channel available in more than 60 per cent of US homes, paid more than \$90m (£58m) for TVS Entertainment, the south of England ITV company that lost its fran-

Flextech, the USM-quoted company which controls The Children's Channel, has now agreed to take a 39 per cent stake in The Family Channel

The package of family enter-tainment will be launched in tion package priced initially at around £3.99 a month. Mr Tim Robertson, president

at Maidaton

meaningful comparatives were noesible

A dividend of 0.5p is recommended. Future dividends will be determined in the light of trading results and prospects.
The Children's Channel saw

The channel has recently

yesterday that TCC had entered into a joint venture with Quantum International, a subsidiary of National Media Corporation of the US, to broadcast a home shopping "informercial" service on its surplus hours ou Astra 1A.

By Norma Cohen,

ENHANCED scrip dividends briefly April's corporate finance flavour of the month for UK companies, burst back on the scene yesterday to

"As a one-off, we don't mind it," said one shareholder. Investors said North West Water's finances appeared sufficiently healthy to avoid the view that it had resorted to paying dividends in shares because cash was not avail-

"But there is a danger in the constant issue of new equity. We don't want a series of disguised rights issues." And, shareholders said, the structure of the latest deal looked suspiciously like a capital raising exercise.

North West, one of the 10

privatised water companies, announced a cash final dividend of 14.27p and offered investors an alternative in shares worth an additional 50 per cent more at 21,405p. The point of the exercise, said the company and its advisers, Swiss Bank Corporation (SBC), is to cut the bill for Advance

Corporation Tax. The point concentrating the minds of investors is the company's calculation of its tax savings relative to its total savings, assuming that 90 per cent of shareholders choose shares rather than cash. North West says it will save £50m, of which £13.3m is ACT savings. The remainder of the savings are simply cash payments the company will not have to make, a move which will effectively give it access to new cap-

North West yesterday tried to soothe its shareholders' anxieties, saying: "There is no present intention to extend this to future dividends." However, RTZ, which was the first company to issue enhanced scrip dividends, said on Tuesday that it would offer the option for its interim dividend

shareholders' point of view. "If companies want cash, they should simply conduct a rights offering." said one shareholder. In a rights, companies would be expected to spell out in detail how they intended to use the cash and what return they expected to

as well, an ominous note from

earn on the new capital.
Yesterday, North West said
it intended to use the funds for international expansion, development of non-core activities and expanded research and

Shareholders said that the plans went further than those outlined by the company when it first contacted them informally to ask how an enhanced scrip issue might be received. "We told them we wanted to know more details," one inves-

The deal, like the half dozen or so for other UK companies, works like this; companies incur ACT on profits they earn which are passed along in the form of dividends to shareholders. However, they may offset that by the amount of corporation tax they owe, effectively eliminating the tax charge on their dividend payments. There is no ACT payable on dividends issued in shares rather than cash.

But some companies pay lit. tle UK corporation tax anyway. and thus do incur additions tax when they pay cash dividends. Barclays de Zoete Wedd in April, led the first deal designed to get around that

Up until today, the compa-nies issuing scrip dividends have been those with large earnings from abroad on which no UK corporation tax is incurred.

In the case of North West, its extensive capital expenditure programme has given rise to such large tax write offs that its corporation tax charge is insignificant. SBC said that atleast six other water companies are in a similar situation, although it declined to say whether issues for those are

"We are being selectively approached and we are selectively approaching other com-panies," maintained Mr Roger Luskam, SBC executive direc-

Meanwhile, the Treasury, which stands to lose hundreds of millions of pounds in tax revenues from the various enhanced scrip dividends announced so far, said it was "watching" the situation, although it has no plans to alter the tax laws.

Perpetual

ETT III GOOD

Chancellor Norman Lamont, in the March 16 Budget, announced a review of ACT with respect to charges incurred on dividends paid out

## Casket advances to £2.85m

By Catherkia Milton

CASKET, which is to make bicycles similar to the hightech Lotus on which Chris Boardman won an Olympic medal last summer, clocked up pre-tax profits of £2.85m in the year to March 31 on the back of

a big jump in cycle sales. This was a sharp rise from £341,000, but the comparison was flattered under FRS 3 accounting rules by £1.72m in provisions made in the previous year for operations.

Mr Joe Smith, chief execu-tive, said: "We must remain cautious while the recovery is still patchy, but we are optimistic about the outlook for

using licenced elements of the Lotus design and retailing for production, but Casket has already launched five conventional models under its new LotusSport brand. The brand is Casket's in perpetuity, subject to minimum sales of "a few thousand cycles" a year, the company said .

including famous names such as Falcon and British Eagle. and about 250 models. UK production accounts for a third of the total and is expected to climb to half this year. Casket claims 25 per cent of

Casket now has nine brands

the UK cycle market and is not looking for "further dramatic increases," siming to increase sales in continental Europe. Cycle exports are now 10 per

Turnover in the review rose to 296.5m (271.9m). Sales of cycles rose by 70 per 600,000 (420,000) cycles, which gave operating profits of 23.99m (£2.25m).

The clothing division, reorganised after the acquisition of Yates in September, lifted sales 12 per cent to 244.3m (£39.5m), giving operating profits of 2806,000 (£1.23m). Casket sells most of its

largely overseas-sourced clothes under the "own labels" of high-street retailers and reported margin pressure as buyers tried to hold prices in spite of sterling's devaluation. Net interest payments fell to £1.48m (£1.75m). Borrowings

and gearing fall to 31 per cent (46 per cent). Net cash of £1.43m was generated. The recommended final dividend of 0.5p (0.35p) gives a total of 0.8p (0.5p). Earnings

were reduced to £4.17m (£5.6m)

## Whessoe slips back to £4.02m

WITH FRS 3 accounting standards boosting last year's pre-tax line, Whessoe, the instrumentation and control and piping systems group, reported a slip in taxable profits from \$4.16m to \$4.02m in the half-year to March 31.

Naturally though, Mr John Samuel, group financial direc-tor, was keen to emphasise that, at the operating level, profits grew 15 per cent to £3.74m (£3.25m), a result with which he was "pleased", given the "difficult trading environ-

Group turnover advanced 11 per cent to £40.8m (£36.6m). Earnings per share declined to 11.6p (13.7p), though without FRS 3, they would have increased, the company said As a result, the interim divi-dend is lifted to 2.3p (2.2p). in February, Whessoe launched a £21.8m bid for

Autronica, the Norwegian

maritime and industrial instrumentation and fire security systems group.

Mr Samuel thought it

"highly unlikely" that the bid would be turned down by the

Norwegian authorities, but could not guess at the condi-tions that might be imposed. A rights issue in February raised £14.3m towards the cost coming from cash reserves.

The instrumentation and control division lifted profits to £1.76m (£1.13m) on turnover of £15.7m (£10.5m), helped by a full contribution from Varec acquired in 1992. Profits in the piping systems side, however, fell to £2.06m (£2.3m) on turnover down at £16.9m (£19.4m).

#### DIVIDENDS ANNOUNCED

	Current Payment	Date of payment	Corres - ponding dividend	Total for year	Total last
Carelest	0.5	Oct 1	0.35	0.8	0.5
Countryside Prop Int	1.41	Sept 2			
Courtsuids			1.41	-	4.11
Cod Codice		Aug 2	9.35	74	. 13
European Colour fin	0.525	July 19	0.4	D. III	0.85
Flextsch §	0.5	,	nii		
Montes Invest	4.7	Aug d		0.5	- nE' ·
Nth West Water fin		Aug 3	4.7	6.7	6.7
MAN MARK MARKET IN	14.27	Aug 6	13.18	21.4	19.87
Clives Property fin	nΒ	= =	3		
Plysufin	5	h.h. 00	_	1.5	, 5
Rotte & Notenfin		July 20	4.25	<b>7</b> †	6
LIONE OF LANGES	4.65†	July 23	3.0	7.2	8.2
Warnford Inva	4.75	Oct 11	4.5	. 7.5	7.25
Whenese			-	. /	F -255

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MAGAZINES

FINANCIAL TIMES



COMPANY NEWS: UK AND IRELAND

## Result of investigation into share placing expected early June Davy probe near completion

By Tim Coone in Dublin

On

THE IRISH Stock Exchange says that its investigation into the April 30 placing of 25.4m shares in Greencore, the sugar, milling and malting group, by Davy, the Dublin stockbroking firm, is expected to be com-pleted early next month.

The investigation is focusing on several aspects of the placing, including Davy's original share placing arrangements with SG Warburg, the London broking firm with whom Davy has said there was a profit and has said there was a profit and loss sharing agreement which

Warburg was to have taken up to 10m of the shares, as a buyer of last resort, but Davy ended up placing 7m shares with groups associated with the Davy directors instead. Two investigators from the London Stock Exchange's surveillance unit together with Mr

pliance officer, are apparently heading the investigation.
In a new development earlier this week, Davy said that some of the telephone conversations made from the company's deal-

David Mulville, the ISE's com-

was abandoned on the day of the placement. ing room, failed to be recorded on the day of the Greencore placing. As standard practice, most brokers record dealing room telephone calls to clear up any subsequent misunder-

> In the week following the placement, trading in Greencore shares were suspended in London and Dublin for two days, after the Irish governwhich owned the Greencore shares, said it had been informed by Davy that there might be legal problems with the placement.

unusual step of making a pub lic statement saying Greencore shares had been trading on the tion" following the placing and that the conduct of Davy was to be investigated. Several overseas institutions

then pulled out of the placement. However, it was rescued by Davy's parent, the Bank of Ireland, which stepped in to buy 9.6m of the shares at the offer price of 1£2.75. Mr Leonard Abrahamson.

the ISE's new president, said tigation will be made public.

## DCC rises and confirms listing plan

By Tim Coone in Dublin

DCC, the Dublin-based private industrial holding company, improved pre-tax profits by 2 per cent to I£13.8m (£13.4m) for the year ending March

At the same time the com-pany confirmed that it would seek a stock market listing "in

DCC is one of the few private Irish companies to publish full financial statements. The company has been built

up over 16 years from a IEIm venture capital operation into a holding company with net assets now totalling I£136m, including a net cash balance of ig21m, by Mr Jim Flavin, its founder and chief exec-

DCC took a majority stake in Printech and Wardell Roberts at the end of last year, increased its holding in Fyffes to 11 per cent, and more recently announced its inten-tion to take a 29.9 per cent stake in Kingston Oil, the UK recycler of waste oils.

It has invested I£22m in building these and other stakes over the past year. Earnings per share for the year totalled 77.8p (76.5) and a dividend increase to 11.5p (10p)

is proposed. DCC is 95 per cent-owned by institutional investors, the two largest being the Bank of Ireland and Irish Life.

Acquisition

behind fall at

Rolfe & Nolan

Profits at Rolfe & Nolan

Computer Services, a futures

and options computer and soft-ware specialist, declined from £1.39m to £1.22m pre-tax for the

year to end-February. Last month the group

acquired the 80.1 per cent bal-ance of Brokerage Systems and under current accounting rules

had to take that company's

have totalled £1.71m.

the total by 1p to 7.2p.

#### **NEWS DIGEST**

## Perpetual **surges** to £5.09m

SHARES OF Perpetual, the unit trust and portfolio management organisation, rose 52p to 453p yesterday on news of a surge in profits from £2.18m to £5.09m pre-tax for the six months to end-March.

Turnover of £325.83m compared with £121.33m previously and basic earnings per share worked through at 13.28p (6.14p), or 12.05p fully diluted Because of changes in the Budget payment of the 1.8p (1.2p) interim dividend was brought forward to April.

Mr Martyn Arbib, chairman, believed that a further improvement in profits could be achieved in the second half and said it should be possible to declare a "substantial increase" in the final dividend – last yeer's final was 3.60.

He pointed out that funds under management increased over the opening six months from 2846m to El.34bm boosted by an influx of some £260m of net new money. The funds have subsequently increased to

Turnover and pre-tax profits for the year to September 30 1992 totalled £246.64m and

#### Cambridge expects 'significant' losses Cambridge Group, the Dublin-

2m

based asset financing and confirming company, said yesterday that it expected to report "significant losses" for the year to February 28 1993.

The losses put Cambridge in breach of its banking covenants and the banks have been asked for a temporary waiver of these breaches, pending a review of its business and rene-gotiation of banking facilities.

The company said the losses were due mainly to provisions in the confirming division, because of the impact on cus-tomers in the second half of high interest rates and exchange rate volatility.

The division's business was under review and the group annual results would be delayed pending publication of

No final dividend would be propo In the six months to August

31 Cambridge saw pre-tax profits fall 43 per cent to Ig1.43m. ities were increased by IE9m to

#### Hoskins in takeover talks

SBT-BATIF

NOTICE OF MEETING

Friday 11th Jone, 1993 at 34/36, acquire de Friedland, 75000 PARIS for holders of the USD 100,000,000 None (seed in March 1986 and mai

her to consider the following matters:

Approval of a proposed agreement for the hiving-off by SET-RATE! of his business of 
Approval of a proposed agreement for the hiving-off by SET-RATE! of his business of 
managing a portfolio of high yield bonds to ARCEMS, a "societé menoyene" wich a since 
capital of FRF 8,382.250,000, whose registered office is at PARS (75007)-5, bondward, 
Latont Manbourg, segistered with the Peris Computed Registry under number B378 648 99 de, 
Acknowledgement that SET-RATE! some results responsibility for the bond issues, fact being 
to joint and several Rability with the transferrer company under the hive-off;

Powers. Its order to attend or to be represented at any such Meeting, the bolder of any note tunnt, at local fee days before the date flaced for the Meeting, deliver to one of the paying agents mentioned between the certificate issued by an authorised intermediary evidencing that such note has been blocked and the date of the Meeting, or the holder ment deposit with one of the paying agents either such note, or a date of the Meeting, or the holder ment deposit with one of the paying agents either such note, or a date of the Meeting, or the holder ment deposit with one of the paying agents either such note about rane at least four days before the date extificate are released in the Meeting on the basis that such note about remain so deposited until the Meeting has been held.

Meeting, shall be open to impresses by an open of the Board of Directors to the General Meeting addition, the text of the septentions, the superior prescribed by two.

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1. 2093 LUXEMBOURG

SWISS BANK CORPORATION

NOTICE TO HOLDERS

OF THE

6%% CONVERTIBLE DEBENTURES DUE 2003

THE GOODYEAR TIRE & RUBBER COMPANY

Notice is hereby given that, in accordance with the provisions of that certain

Indenture, dated as of July 7, 1988 (the "Indenture"), between The Goodyear Tire & Rubber Company ("Goodyear") and Chemical Bank, as successor by

merger to Manufacturers Hanover Trust Company, Trustee (the "Trustee"), pursuant to which Goodyear issued U.S. \$150,000,000 in principal amount of

64% Convertible Debentures Duc 2003 (the "Debentures"), the Conversion Price of \$80.25 set forth in the Debentures is adjusted to \$40.12 per share of Common Stock, without par value, of Goodyear (the "Common Stock"), effective May 1, 1993. The Conversion Price has been adjusted in accordance

with Section 1304 of the Indenture as a result of and to reflect the two-for-one split of the Common Stock distributed on May 4, 1993 in the form of a dividend of one share of Common Stock on each share of Common Stock

Accordingly, from and after May 1, 1993, each holder of a Debenture is entitled, subject to compliance with the provisions of the Indenture, at his option at any time on or before the close of business on July 7, 2003, or on or before the close of business on such earlier date as of which such Debenture is before the close of business on such earlier date as of which such Debenture is proposed by Conductor to convert the Debenture at the principal amount of

such Debenture, into fully paid and nonassessable shares of Common Stock at a Conversion Price equal to U.S. \$40.12 aggregate principal amount of

and by Goodyear, to convert the Debenture, at the principal amount of

CH-4002 BALE MORGAN GUARANTY TRUST COMPANY OF NEW YORK

60 Victoria Emberizaria LONDON ECLY OJP MORITAN GUARANTY TRUST COMPANY OF NEW YORK

Notice in biseby given to the jubiless of the Notes referred to indow that a Ger convenced by the Bolard of Directions of SBT-BATS<sup>2</sup> for:

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i aponyans" with a share captud of FRF 2,518,144,730 of office: 34/36, avenue de Prindland, 73006 PARES Paris Companies' Registry no. 8542 054 168

Hoskins Brewery is in talks Net asset value of Monks which might lead to a substan-tial acquisition. Part of the consideration would be met by the issue of new shares.

Hoskins said the acquisition would be coupled with a pre-conditional cash offer for all of the company's issued share capital at 55p per share.

The making of the offer would be conditional on the notice to convene an EGM to

approve the acquisition being posted to shareholders. Hoskins anticipated that certain shareholders would not accept such an offer, if made, and said that any Hoskins ordinary shares in respect of which acceptances of the offer may be received, would be placed with institutions and others at 55p

#### Warnford Invests falls to £7.66m

Pre-tax profits of Warnford Investments, the property investment group, fell by 6 per cent from £8.17m to £7.66m in the year ended December 25. Turnover fell from £12.5m to £12.1m. Net attributable profits came to £5.24m (£5.57m) and earnings per share were 13.65p (14.51p). The final dividend has been raised to 4.75p for a total

of 7.5p (7.25p). The group's investment properties were valued on an open market basis at £89.9m (£103.3m) as at December 25.

#### Monks net asset value improves

Investment Trust improved during the year to April 30 from 409p to 472.2p per share. Net revenue advanced to 26.12m (25.76m), equivalent to earnings per share of 7.89p (7.43p). The dividend is being held at 6.7p via a proposed unchanged final of 4.7p.

#### Celitech losses trimmed to £4.28m

ses at Celltech, the biotechnology group, were trimmed from \$4.52m to \$4.28m pre-tax for the six months ended March 31. Turnover of 25.6m

compared with £5.35m. The result reflected a "good performance" from Celltech Blologics and receipt of £2.05m (nil) milestone payments, a further tranche in the £26m agreement with Bayer, the German

pharmaceutical group.

These items offset a 26 par cent increase in research and development investment to £6.91m and a decline in net interest income to £558.000

(£1.06m). Celltech is continuing with its plans to float in the 1993-94

#### Newcastle Mortgage buys Gresham assets

Newcastle Mortgage Corporation, a wholly owned subsidiary of Newcastle Building Society, has exchanged contracts for £16m mortgage assets from Gresham Mortgage. The acquisition is expec-ted to be completed in August. This is the third mortgage equisition for Newcastle since 1991, when it took over the mortgage book of the Gibral-tar-based Heritage Building Society. In 1992 it acquired the mortgage book of the Sun Building Society in Liverpool

BOARD MEETINGS

victo are not

Jun. 16 Jul. 2 Jun. 2 ser. Crp. of S. A.

## division sale to managers for £250m

**BP** agrees

BRITISH PETROLEUM agreed products division to a manage ment buy-out for £250m. Sin Allen Sheppard will become non-executive chairman of the new company with Mr Michael Handley, previously divisional managing director of RHM, become managing

The consumer products division is a leading supplier of household detergents, cleaners and personal care products to supermarkets. It comprises Robert McBride in the UK, Yplon in Belgium and Solaro in Italy with a workforce of 4,000 and a turnover last year of £350m.

Pinancial backing for the buy-out was put together by Legal and General, the insurance company, which is under-stood to have beaten several other management groups in the bidding process.

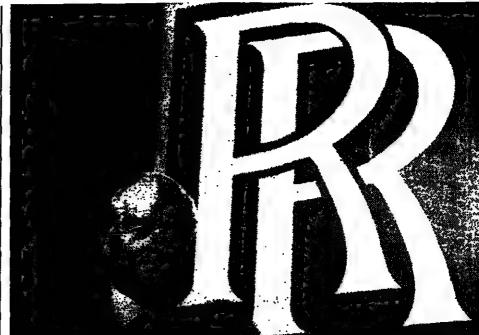
The consumer products divi-sion is the second of BP Nutrition's businesses to be sold since the sector was put up for saie about a year ago. Consumer Foods was sold to

Sara Lee, the US group, last December. Parina, animal foods in the US and other animal feeds businesses in Europe are still for sale.

The consumer products busi ness is understood to have enjoyed solid profits in the past couple of years although BP will not disclose figures.

#### Dencora placing to raise £1m

losses into its year-end figures. Excluding those losses Dencora, the property and housebuilding group, has placed 840,000 ordinary 25p Rolfe's pre-tax profit would shares for cash with institu Group turnover expanded from 26.74m to £11.23m with tional investors at 122p each. Brokerage Systems contribut-Last month, the company ing £3.27m. Earnings per share emerged at 17.7p (15.9p) and a final dividend of 4.55p raises announced a swing from pre-tax profits of £404,000 to losses of £938,000 in



## Rolls-Royce trading still tough

ROLLS-ROYCE, the UK aero-engine and industrial power group, warned yesterday that trading conditions would remain under essure over the next two years, writes Paul

He saw little prospect of an improvement market conditions until 1995, but Sir Balph Robins, chairman, told the annual general meeting that the group was "determined not to be swept off

The high level of investment in research and development necessary for long-term growth strategies would continue.

Describing market conditions as "very difficult". Sir Ralph said that the group's current level of profitability was "quite unsatisfactory.

Rolls-Royce reported a pre-tax loss of £184m last year, reflecting restructuring provisions of

The company has also announced plans to reduce its workforce by a further 5,000 people over the next two years,

But Sir Ralph said he believed the company's strategies would strengthen its position in world markets when the recovery eventually

## European Colour at £0.64m

By ian Humiton Fasty. Northern Correspondent

EUROPEAN Colour, which makes pigments for printing inks, lifted pre-tax profits from £47,000 to £640,000 in the year moded March 31.

A 22 per cent surge in European mainland sales helped group turnover rise by over 5 per cent to £14.01m (£13.27m). The final dividend is 0.525p (0.4p) making 0.8p (0.85p) for

Earnings per share rose to 1.85p (0.33p). European sales showed similar growth in 1991-92 and now account for 27 per cent of turn-

This follows development of new high quality products offering brighter colours, and attainment of the ISO 9001 European quality standard.

The company made small net gains from Britain's exit from the ERM after price adjustments to imports and exports.

nating a Deutschemark overdraft it was maintaining as

Mr Mike Armitage, managing director, said the company was constrained by its small size, but was a successful niche player, selling to inkmakers. He said the company would grow organically.

He would not rule out acquisitions if the fits were right. "But don't hold your breath," he mided

#### North West Water Group PLC

#### PRELIMINARY ANNOUNCEMENT OF RESULTS FOR THE YEAR TO 31 MARCH 1993

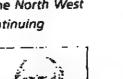
	1993	1992	% INCREASE
NET SALES	£878m	£789m	11.3
PROFIT BEFORE TAX	E247m	£230m	7.4
EARNINGS PER SHARE	62.3p	57.9p	7.6
RECOMMENDED FINAL DIVIDEND	14.37p	13.13p	8 8

## ACHIEVEMENTS AT HOME AND OVERSEAS

#### Sir Desmond Pitcher, Chairman said: "I am delighted to report a continuing good

performance in the regulated business, a useful contribution from our process companies and encouraging success in winning a series of major international contracts. We are committed to achieving cost and quality leadership, both to provide the product and service standards expected by our customers in the North West of England and to underpin continuing international development.

To support the expansion of our international operations, we are offering our shareholders the opportunity of an enhanced scrip dividend."



SUSTAINED IMPROVEMENT IN FINANCIAL PERFORMANCE

CONTINUED REAL GROWTH IN DIVIDEND AND EARNINGS PER SHARE

**ENHANCED SCRIP DIVIDEND** 

SUCCESS IN WINNING INTERNATIONAL CONTRACTS

**USEFUL CONTRIBUTION** FROM THE PROCESS COMPANIES

**EXPANDING SKILLS AND** TECHNOLOGY BASE

INVESTMENT PROGRAMME **OUTPUTS ACHIEVED** 



GREAT SAMKEY, WARRINGTON, CHESHIRE, WAS 3LW

outstanding at the close of business on April 30, 1993.

May 1, 1993

Debenture for each share of Common Stock. THE GOODYEAR TIRE AND RUBBER COMPANY U.S.\$250,000,000



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Nomura International

Salomon Brothers International Limited

**UBS** Limited

IBJ international plc

**Swiss Bank Corporation** 

S.G.Warburg Securities

Sanwa International pic

Banque Bruxelles Lambert S.A.

**Barclays de Zoete Wedd Limited** 

Daiwa Bank (Capital Management) Limited

J.P. Morgan Securities Ltd.

Morgan Stanley International

Paribas Capital Markets

Sumitomo Finance International pic

May 1993



FINANCIAL TIMES CONFERENCES

## REGULATION OF THE RETAIL **INVESTMENT INDUSTRY**

## London, 8 July 1993

Effective regulation of the retail financial services industry has proved costly and, by many accounts, inadequate. The conflicting interests of disparate business organisations have created almost Insurmountable obstacles in the path of a single, cohesive system which will at once satisfy investors and consumer groups while encouraging Innovation and competition.

This Financial Times Conference brings together a distinguished panel of speakers from all sides of the debate to discuss how effective regulation of the retail financial services industry can be achieved, the shape of future regulation, together with the rules relating to product disclosure and their impact on financial institutions.

Speakers include:

**Ms** Rachel Lomax **H M Treasury** 

Sir Gordon Downey KCB Personal Investment Authority

Mr Tim Miller Securities and Investments

Board Mr Bill Raynes

**NFIFA** Mr Kenneth Bignall

RETAIL INVESTMENT INDUSTRY

**Barclays Financial Services Limited** 

Mr Andrew Large Securities and Investments Board

Mr Mick Newmarch Prudential Corporation pic

Mr Philip Warland Association of Unit Trusts and Investment Funds

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## COMPANY NEWS: UK

## Swiss eyes on UK engineers

## Paul Cheeseright looks at the fund-raising proposals of Emesco

Equity Company, the Luxembourg investment arm of Emesco, the Swiss management services group, is completing a SPr50m (£22m) fund-raising in London and other European centres.

The move will lead to takeovers of medium-sized UK engineering companies over the next year. Half of the fund-raising is via a rights issue which has already been taken up. Apart from Emesco, which in addition to managing EIEC holds 30 per cent of the equity, shareholders include insurance groups like Equitable Life and National Provident

Barclays de Zoete Wedd Securities, handling the fundraising in London, expects to complete the other half, a share placing, by the end of this month. EIEC units, comprising one ordinary share and one redeemable preference share, each with a par value of SFr100, are being sold at

Under present plans the units, currently quoted in Lux-embourg, will be quoted in

UROPEAN Industrial London or Zurich by 1998. Emesco, which has set up a London office, is seeking to invest EIEC funds in engineering companies with a turnover

is largely outside London. identify companies which need of between £10m and £50m. Its previous investments in

restructuring and are usually loss-making, buy them through EIEC, put in place its own executives as a management 'We look at the product rather than the financials. What does the company make? Is it in a special market where there are

rescue merchant, called in by the banks at the last moment. We're more interested in companies which have lost their way, but which have good products and need restructuring.'

opportunities? If we're excited about the

product, then we go ahead. Emesco is not a

continental Europe have been in the unquoted sector, often "family businesses going through a change of generation," said Mr Richard Butler, chairman of EIEC and an Emesco director. But in the UK, he added, "I think we will be dealing with listed companies." Its search for investment

team and once the company is making profits either to float it or sell it to a third party. It aims to complete the process within five years.

"We look at the product rather than the financials. What does the company make? Is it in a special market where there are opportunities? If

we're excited about the product, then we go ahead," said

Emesco's technique is to Mr Butler. "Emesco is not a rescue mer. chant, called in by the banks at the last moment. We're more interested in companies which have lost their way, but which have good products and need

restructuring," he said. Emesco then is different both from a management con. sultant, providing an existing management with solutions to specific problems, and a ven-ture capitalist, providing equity funds but no manage

EIEC started in 1986 and reorganised its share capital in 1991. Its portfolio of companies bought in 1991-92, comprise Atlantic Zeiser, a numbering machine company in Germany Caracte(grave)res Werding, a Swiss company which once made metallic characters for typewriters but now manufactures aerosol spray systems Convac, based in Germany and manufacturing equipment for the computer industry; and Etheco, an Italian company making thermostats.

## **Prime People sells** Bowford for £1.06m

PRIME PEOPLE, the Manch ester-based specialist training group, yesterday announced that it was selling Bowford Engineering Services only six months after reversing into the

company in a £2.8m deal. At the same time. USM-quoted Prime People announced pre-tax losses of £392,255 for the 10 months to October 31, against 2575,518 for the whole of 1991. Mr Peter Hearn, who became chairman in January when Mr Alan Greenough resigned, said the result was "disappointing". Turnover was £765,840 (2918,394 for year).

In January, the company warned that Bowford's turn-over had failed to improve from its level at the time of the acquisition. In the event, Bowford incurred losses of £170,361 for the six months ended April

Bowford has been sold to BA

Holdings, a company formed by the trustees of the family settlements of Mr John Ashford, a Prime People director, and Mr Geoff Bowers and their respective wives. Mr Ashford and Mr Bowers founded Bowford, which provides technical ly-based training services, in

Consideration for Bowford will be £1.06m. In addition, an intercompany balance due to Bowford from Prime People of £637,250 will be waived and 31m ordinary shares issued to the vendors of Bowford (other than Mr Bowers) will be converted into 31m deferred ordinary which will have essentially no rights.

Mr Ashford plans to resign as a Prime People director and will not receive any compensa tion for loss of office The sale is subject to approval at an EGM to be held

### survey on June 21 1993

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FT SURVEYS

Data source: \* Chief Executives in Europe 1990

### ANGLOVAAL GROUP

**Declaration of Final Dividends** ヒィンソン



Dividends have today been declared in the currency of the Republic of South Africa to holders of ordinary shares listed below. Salient dates related to these declarations are: Last day to register for dividends and for changes of address or dividend instructions Frklay (8 June 1993 Period during which transfer books and registers of Saturday/Priday 19 to 25 June 1993

members will be closed (both days inclusive) Currency convertion data for sterling payments to ers paid from London

Monday 28 June 1993 Friday 23 July 1993 Total for

Dividend warrants posted (on or about)

Name of company	No.	June 1993	June 1992	Cents per share 1993 1992	
Eastern Transvani Consolidated Misses, Ltd Reg. No. 01/08/112/06	86	7	7	12	14
Harrebeestfontein Gold Mining Company Ltd Reg. No. 03/3.1926/06	75	65	45	95	95
Reg. No. 05/33926/06  Notes: 1. The Ulvidends are paid	mublect to	conditions	which can		

istered office of the office of the London Secretaries of the companion, are companion are incorporated in the Republic of South Africa.

2.The thining of the final dividend of Zandpan Gold Mining Company Limited Little thinking of the timu dividuals of analysis position viz-a-viz the proposed has been deferred until the company's position viz-a-viz the proposed Secondary Tax on Companies (STC) is clarified. This will ensure that shareholders do not suffer a reduction of their dividends as a result of the introduction of STC. Depending on the final form of STC legislation, future dividends are likely to be declared not more than a month later than in

By order of the boards

Angiovani Trustees Limited
33 Davies Street
Landon WIY IFN

Registered office Anglovaal House 56 Main Street

Per: K G Williams 26 May 1993



000,000,083 Revolving Syndicated Property Loan Arranged by

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#### **COMPANY NOTICES**

## N K PROPERTIES LIMITED

DECLARATION OF DIVIDEND AND DEBENTURE INTEREST DISTRIBUTION NO.01

Notice is hereby given that interim dividend No.01 of 0.028 cents per share, and debenture interiest of 33.172 cents per debenture be declared payable to shareholders registered on 11 June 1993. The total distribution for the 6 month period to 30 April 1993 will be 33.2 cents per linked unit. Cheques will be posted on or about 25 June 1993. S.A.Non-Resident Shareholders 'Tax will be deducted at source where applicable.

at source where appareaue.

Holden of Beaner Share Warrants in the name of New Kicinfontein Properties.

Limited are reminded that, in terms of the Scheme of Arrangement whereby the company was converted to a Property Loan Stock company with effect from I November 1992, they are required to surrender their Share Warrants to the company's Transfer Secretaries for cancellation and replacement by certificates reconsecution entitlements of new linked units reflecting the gas name of representing entideneous of new linked units reflecting the new name of N K Properties Limited.

By Order of the Board of Directors AFC Properties (Pty) Ltd.

N K Property Management Co. (Pty) Ltd.

Registered office: 25 Wallington Road, Parkiswa, 2193.

#### **LEGAL NOTICES**

No. 835 of 1993
In the HIGH COURT OF JUSTICE,
Chancery Division, Manchester District
Registry, Mr Depay Osisrica Judge Kashner
In the Matter of V.N.G. GROUP LIMITED
And in the manner of the Companies Act 1965

And in the manner of the Companies Act 1965

NOTICE is hereby given that a Pethion was on
the 21st day of January 1993 presented to Her
Majeaty's High Court of Justice for the
confirmation of the cancellation of the sum of
£088,305 standing to the crudit of the Share
Fremium Account of the above-named Company.
And NOTICE is further given that the saud
Petition is directed to be heard before the
Honograble Mr Justice Morrin, Vice-Chancellor
of the County Paloine of Lancaster, stilling as a
Judge of the High Court at the Court House, I
Coston Row, Leeks on Tuesthy 8th buse 1993.
ANY Creditor or Shareholder of the said
Company desiring to oppose the making of an
Onder for the confirmation of the said reduction
of capital should appear at the time of that
bearing in person or by Consel for that purpose.
A copy of the said Petition will be furnished to
any person requiring the same by the undermentioned Solicitors on payment of the regulated
clarge for the same.
Dated this 27 day of May 1993

mentioned Sovietions on pay charge for the same, Dated this 27 day of May 1993 Stater Heelis of 71 Princess Street,

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## **ENGINEERING**

FOR PROFIT June 18 1993

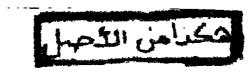
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FT SURVEYS



COUNTRYSIDE Properties, the residential, commercial and industrial property company based in the south east of England, is seeking to raise £16.8m to fund an expansion of its housebuilding activities through a 3-for-11 rights issue priced at 106p.

The cash call was accompanied by a bullish assessment of the group's housebuilding prospects from Mr Alan Cherry, chairman, and the interim results which showed a 28 per cent increase in pre-tax profits because of the absence

In his letter to shareholders Mr Cherry said, "there are signs that the housing market has begun to recover from the recession which started towards the end of 1988. Against this background the directors consider that it is now appropriate to expand the group's housebuilding activi-

Countryside plans expansion on two fronts: speculative housebuilding for sale to owner occupiers, and housebuilding under design and build contracts for housing associations and other social bousing agencies. Eventually the group is aiming to build 3,000 new homes a year in the south east - up from a proj-

ected 1,250 this year. Funds raised through the rights issue, underwritten by Smith New Court, will be used "to take advantage of opportu-nities to purchase land which is currently under option, at what is expected to prove to be



(£2.9m). The commercial divi-

sion made a profit of £100,000 compared with a loss of

£300,000 on turnover which feil

from £3.3m to £2.8m, while

property investment income

was static at 22.9m and pro-

duced an unchanged loss of

Carnings per share increased

to 4.3p (3.2p) and the interim

The group's shares closed

dividend is being maintained

1600,000.

at 1.41p.

unchanged at 130p.

Alan Cherry: inquiries and sales reservations had improved

advantageous prices."
Looking ahead, Mr Cherry
described the group's forward sales position of in excess of £100m compared with £55m this time last year as "most encouraging." He said both inquiries and sales reserva-tions had "greatly improved" and that new house prices had generally stabilised with modest increases being obtained on some developments.

in the six months to March 31 the group achieved pre-tax profits of £2.6m compared with £2.04m. Last time profits were reduced by a £1.02m provision relating to residential development sites. Turnover slipped to £41.9m (£42.2m).

Sales by the residential division increased to £36.7m (£36m)

and profits grew to £3.1m

## A new line for selling insurance

Richard Lapper reports on the industry's increasing use of direct sales by telephone

EWS THIS week that Rollins Hudig Hall, one of the world's biggest insurance brokers, and General Accident are joining forces to launch SelectDirect, a new telephone-based service to sell home and motor policies, has served to signal the growth in so-called "direct" insurance

number by UK insurance com-panies and brokers in recent months. It responds to the inroads into the motor insurance market made by direct writers in the last two years. Direct writers sell insurance through a combination of telephone sales and mass media advertising, bypassing the bro-ker, the industry's traditional middle man.

By the end of this year nearly two million motorists will be insured by the three biggest direct writers - Direct Line, Churchill, and The Insurance Service.

Direct Line, launched in 1986, confidently expects to be the biggest motor insurer in the country by the end of the year and is making handsome profits for its parent, the Royal Bank of Scotland

Churchill, launched by Switzerland's Winterthur, in 1989, says it is now making profits, as is The Insurance Service.

the direct writing subsidiary of Royal Insurance.

petitors RiHi does not intend to establish a network of high street branches, which it According to a survey to be believes will add substantially blished next month by GSR, the London research company, direct writers currently

26.1bn motor insurance mar-ket. GSR predicts that the market share of direct writers will rise to 40 per cent by 1998.

The managers of direct writing companies say that recent growth of direct sales indicates the public is increasingly pre-pared to buy insurance by tele-

account for 20 per cent of the

Mr Richard Hill, chief executive of TIS, says direct tele-phone sales are ideally suited for low margin insurance products such as motor insurance "You wouldn't sell cheques or credit cards by a broker. Why sell motor insurance that

SelectDirect's formation reflects an increasing recogni-tion among brokers about the popularity of telephone sales. RHH, whose US parent Aon Corporation took over Frank B Hall and its UK subsidiary Les-lie & Godwin last year, is following in the footsteps of three other chains of telephonebased brokers: AA Insurance, Swinton Insurance, which is owned by Sun Alliance, and

company. Mr James Morley, finance director, acknowledge the trend towards direct sales in motor insurance. "It is more a question of when rather than whether although we have not

General Accident's involve ment in the new venture

SelectDirect's formation reflects an increasing recognition among brokers about the popularity of telephone sales. RHH, whose US parent Aon Corporation took over Frank B Hall and its UK

subsidiary Leslie & Godwin last year, is

following in the footsteps of three other chains of telephone-based brokers: AA Insurance, Swinton Insurance, which is owned by Sun Alliance, and Safeguard

reflects its commitment to tele-Eagle Star and Royal Insurnies - Commercial Union and ance, GA is one of the three big UK composite (multi-line) insurers to have established its Sun Alliance - are also thought to be increasing the own direct writer. GA 1-2-1 now underwrites 17 per cent of General Accident's motor

insurance book. A fourth composite, Guardian Royal Exchange is also widely expected to follow suit within the next 12 months. GRE's subsidiary in the Irish Republic - PMPA Insurance -

reached a definitive view that the time is right." Two other composite compa-

is a successful direct response

proportion of direct motor Legal & General is also examining the possibility of a new direct insurer, while other

direct writers include Prospero, the subsidiary of Provin-cial Insurance, Preferred, a subsidiary of Denmark's Top-danmark and Touchline, which

is owned by GAN, the large Underwriters at Lloyd's of London - which has a 15 per cent share of the UK motor market - are also active in the market. Earlier this year Admiral, a service company managed by the Hayter Brockbank agency, began a direct opera-

tion in January from a new base in Cardiff. Admiral aims to have between 45,000 and 70,000 policyholders by the end of the year, but according to Mr David Stevens, marketing manager, it is is focusing on rela-tively small "niches" such as drivers who are under 25 but have clean driving records.

By contrast, companies such as Direct Line, Churchill and The Insurance Service are aiming to win a much wider share of the market. Direct Line intends to attack the home insurance market. In the motor market, all are selective about the sort of motorist they will insure. Even so, Mr Hill says TIS is prepared to insure four

out of five motorists. Mr Martin Long, chief executive of Churchill, says the main thing is "we have not set out to be a niche player. We've set out to become one of the UK's largest motor insurers very rapidly. We plan to be

## Storehouse calls off its plans to sell loss-maker

By Nell Buckley

STOREHOUSE, the UK retailing group whose principal interests are the BhS and Mothercare chains, said yesterday it had abandoned plans to sell the loss-making Blazer menswear chain because the

offers had been too low. Blazer, which incurred a £600,000 operating loss last year, was the final "non-core" business Storehouse was attempting to sell, following the disposal of the Habitat and Richards chains last year and the end of its Oppidan property joint venture in

Mr Graham Rider, finance

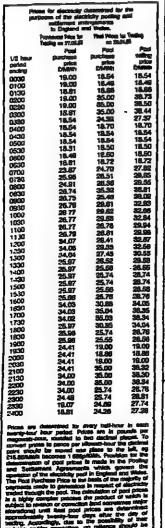
eral offers to buy Blazer had been received, they would have represented a bigger book loss than the board was prepared to

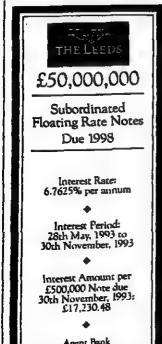
He added Blazer would still be classified "non-core", as it did not have the potential to be a mass-market business like BhS or Storehouse. But it was essentially sound, and Storehouse believed it had a number of ideas that could return it to

"There are cartain things we know need putting right within the business which we did not do while it was up for sale, but we will now be looking at," he said.

#### Public Works Loan Board Rates

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Over 4 up to 5	716	7%	7%	
Over 5 up to 8	714	7%	8%	
Over 6 up to 7	71/2	71/4	8%	
Over 7 up to 8		7%	6%	
Over 5 up to 9	7%	8	876	
Over 9 up to 10	8	B1/L	9%	
Over 10 up to 15	8%	•	915	
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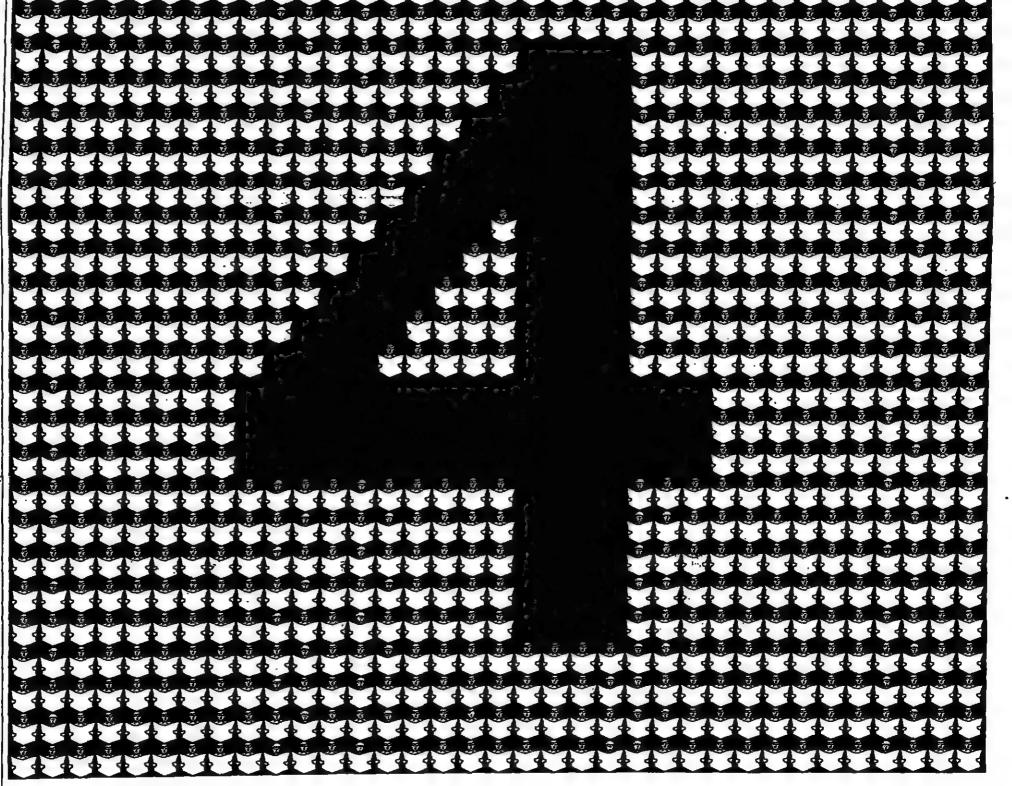




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FAR MORE THAN FINANCE.

John Lloyd in Moscow

THE PARTNERS in Russia's foremost joint venture in the vital oil sector meet today in the city of Raduzhny in the Tyumen region to decide whether or not to continue an increasingly fractious - and apparently unprofitable - rela-

White Knights a joint enterprise between the state-owned oll company Varyeganneftegas (50 per cent), the Phibro Energy subsidiary of Salomon Brothers (45 per cent), and Anglo-Suisse (5 per cent) has in little over two years produced some oil but seems to be drowning in irreconcilable differences between the main partners. Varyeganneftegas

The outcome of the last-ditch talks today will be closely watched by the oil majors, all of which are trying to establish toe-holds in the Russian market but none of which have made really major investments because of continuing confuabove all - the attitude of Russian production companies and

Phibro has alleged that the Russian side had threatened to halt payment of contracts, to stop payment of US workers on the site, to confiscate half of the production of the enteprise and stop efforts to obtain the necessary licenses and export tax exemptions.

Mr Robert Baker, a spokesman for the parent company Salomon, said earlier this month that "These steps, if taken, would destroy our investment, destroy the economic base of the project and cause it to close down". The company has warned the industry that if it feels itself forced to break off the two-year co-operation, it will endeavour to broadcast widely its version

The US company has spent some \$115m on the project, which presently produces 8,000 barrels of crude a day. Mr Robert Denham, chairman of Salomon, has told Mr Lloyd Bentsion over the law, taxes and - sen, the US Treasury

Secretary, that the action contemplated by Varyeganneftegas was "theft" and asked him to make clear to the Russians that the government's actions "are inconsistent with the fundamental premises of US economic assistance".

Phibro's investment represents probably the largest sum put into the Russian oil industry by a foreign company to date - though the feasibility study conducted off the coast of Sakhalin in the far east by a US-Japanese consortium including Shell and Mitsui is understood to have cost around \$100m. The French oil company Elf-Aquitaine is also to make a medium-sized investment in the Volga region.

The failure of Phibro would be a major blow for foreign hopes that the Russians are willing to see foreign companies operate with relative free dom. All oil majors complain that they suffer from high and constantly changing tax rates and from a lack of interest from the Russian side in allowing profitable exploitation.

## EC farm ministers close to new price package accord

By David Gerdner in Brussels

AFTER THREE days of negotiations, EC agriculture ministers were last night close to agreeing a farm price package for this year, which in the view of the European Commission maintains the integrity of the radical reform of the Common Agricultural Policy decided last May.

Ministers were still battling. however, over the regime for "set-aside" – land to be taken out of production as one of the main means of reining in overproduction.

A compromise devised by the Danish presidency of the EC and the European Commission retains what Brussels regards as essential to safeguard the CAP reform. Commission officiais claimed

France had sought significant changes to the set-aside rules. It wanted a 50 per cent increase in compensation to cereal and oliseed farmers.

A more likely outcome last night seemed between 25 and 30 per cent - an increase of Ecul2 per tonne rather than Ecu20, the rise sought by Paris.

France linked this demand to the EC-US agreement on oilseeds reached last November. which staved off a trans-Atlantic trade war and in principle settled most of the farm chapter of the long-stalled Uruguay Round to reform world trade

France, along with Ireland. also wants to raise the weight limits on beef carcasses eligible for subsidised stockpiling, reduced under CAP reform to help cut back the EC's 1.1m tonnes beef mountain.

The Commission was still holding the line last night on this demand, arguing that what had been agreed under last year's reform was already manifestly insufficient to rein in beef overproduction.

The UK was also resisting a Commission proposal to increase the standard 15 per cent set-aside requirement, on a five year rotational basis, to 20 per cent in the case of land which is not rotated.

Brussels yesterday agreed to reduce the fixed set-aside requirement to 18 per cent, but only in areas where less nitrate fertilizer is used, under a regime agreed in 1991.

The Commission reckons the

net result in production terms would be the same. Mr John Gummer, UK agriculture minister, argues that the increased fertility resulting from rotational fallowing of land reduces output by less

"Both systems have disadvantages but the Commission Sons

of the reasons for failure.

dwells on one of them," he said, referring to Brussels' con-

off," Mr Gummer added. The Commission maintains that while this has traditionally been the case, advances in fertilizer and pesticide technology, along with genetic improvements in seeds, have all but elimnated the yield differences between continuously planted areas and land revital-

aside their most marginal land.

that these two systems net

ised by fallowing.

True to their tradition of allweek, all-night negoitation on micro-adjustment of CAP rules to bolster national farm interests, the agriculture ministers looked set to reach a denouement late last night or in the early hours of this morning.

After last May's epic negotia-tions of the CAP reform, it had been fondly thought that no more than management and tinkering would be needed. The Commission now realises that it has a battle on its hands to make the reform work. Rulgarla expects to lose tens of millions of dollars as a result of a ban on meat and livestock exports imposed by the government after an outbreak of foot-and-mouth disease, Reuter reports from

0000A - Lendon POX

Close Francis High/Low

# Russian oil joint venture | Silver demand exceeds output in 1992

By Laurie Morse in

WORLD SILVER demand outstripped production and other new supply in 1992 for the third consecutive year.

The deficit may have begun to support prices, according Mr. Jeffery Christian, who presented the fourth annual World Silver Survey to New York analysts yesterday.

Published by the Washing-ton-based Silver Institute, the survey was prepared by the research firm CPM Group, of which Mr. Christian is a man-

bullish tone contributed by gradually rising demand for silver, however, other fundamental factors - including large world stocks - overhang the silver market.

Silver prices continued a decade-old decline in 1992 and silver extraction, which is often a by-product of copper. zinc, and other mining failed to respond to lower prices.

Total silver supply rose 1.8 per cent to 501.7 m ounces in 1992, while silver use for fabricated products rose 2.0 per cent to 590.3m ounces, a gap of

aging director. Despite the 88.6m ounces. Supply gains came from a 1.3 per cent increase in mine production, and a 3.0 per cent increase in secondary supplies.

A decline in silver use in the US, Japan, and other industrialised countries last year was more than offset by rising demand in the countries of Asia, particularly India.

The report projects fabricated silver demand to rise 5.9 per cent in 1993, to 625.0m ounces and new supply to drop 4 percent to 481.8m ounces. Although secondary sources of silver will continue to

increase this year, the survey projects mine production. excluding countries with nonmarket economies, to decline 6.3 per cent to 339.8m

Mine output in the US, Canada and Peru is forecast to fall, while Mexico, the world's largest silver producer, is expected to continue production at about 65m ounces this

While China was the biggest buyer of gold last year, ithas had little influence on world silver statistics, Mr. Christian

closure shortly include Unifi-

cada, a silver-zinc mine, and

Colquiri, a tin-zinc mine. The

escape the cuts is Huanuni.

which produces high grade tin

ore destined for the corpora-

of the corporation's mines,

however, perhaps the strongest

benefits indefinitely, thus

greatly reducing the corpora-

tion's ability to cut costs and

Catch 22 situation which may

be further aggravated by the

pending Supreme Court deci-

sion. The corporation has an

increasing stockpile of "dirty"

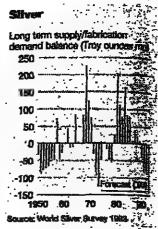
zinc ores heavily contaminated

with antimony, which it can-

Comfbol now finds itself in a

improve efficiency.

Quite apart from the closure



## Supreme Court's sword over Comibol

the framework of the constitu-

tion, Several industry figures

A negative ruling from the

court would be a severe blow

not just for private investment

but for Comibol itself. Mr Guz-

man, who came to the corpora-

tion in January, says the group

might have to close all but one

Chris Philipsborn on a judgement crucial for foreign investment in Bolivian mining

are not so certain.

B is expected to rule shortly on the legality of joint ventures between two private companies and Comi-bol, the state mining corporation. The decision will be watched closely by the country's mining industry since it may put the final nail in the coffin of Bolivia's attempts to attract foreign investment to its beleaguered public mining

The private companies whose joint venture deals with Comibol are being scrutinised by the Supreme Court are Cominesa, a subsidiary of Specialty Metals of the US, which made a bid for the Tasna biscern about farmers setting muth/gold mine, and Mineracao Taboca, a subsidiary of "All our experience shows Brazil's Paranapanema, which wishes to exploit the Kenko tin tailings of the Catavi-Siglo XX

> Neither company has been able to start operations because of union opposition but it had been hoped that a new government after general elections on June 6 would have dealt with the issue and cleared the way for work to begin. It is now possible, however, that an unfavourable decision by the Supreme Court could annul the contracts altogether. In the mining industry it is believed that this may well be the likely outcome.

The difficulty with both contracts is the failure of the Bolivian government to issue

supreme decrees to ratify each joint venture - necessary because Comibol is stateowned. The mining unions took the matter to court after they had discovered that the proper procedures had, alleg-edly, not been followed.

The government subsequently tried to issue backdated decrees but the attempt was discovered and blocked

year's end. Comibol has made a loss of over \$672m since 1980 This is the latest in a series of La Rosa, wholly owned by Bolivian mining group Emusa and individual enterpreneurs has signed an exploration joint venture Billiton, part of the Royal Dutch Shell oil group. Exploration work is expected to start in the next few weeks. The contract covers the Don Mario ore body in tropical eastern Bolivia. Preliminary exploration, including bore holes, have revealed an estimated 7m tonnes at ore reserves in total. The ore body is a polymetallic mix of copper, gold and silver. The contract should have a

blunders by the government of President Jaime Paz Zamora which have done little to foster confidence in the country's public mining sector.

The real danger for the country's mining industry is clearly spelled out by Mr Armundo Guzman, Comibol's new executive director, who thinks that a decision against the existing joint venture contracts would be "crazy."

"It would stop all foreign

investment from coming to Bolivia," he says. Mr Gurman believes that the government has acted within

duration of 2 to 3 years, with production and has been hard hit by the

Already. San Vincente, a

of its mining centres by the indictment of this government's handling of the public starting in up to 6 years. Shell has had an offer for Billiton from Gencor, the South African

tion's Vinto smelter.

group, but Emusa believes the La Rosa deal will not be affected. • Pan-Andean Resources, a British quoted company, was yesterday signing a major oil exploration joint venture with YPFB, the Boliv-

ian state hydrocarbons group. Mr John J. Teeling, Pan-Andean chairman, said the joint venture covers 1.39m hectares in the tropical Chapare region in central Bolivia. The contract sector mining industry is that,

under an agreement with fall in the international market price for base metals, particuunions, all workers employed larly zinc. in Comibol mines which have The collapse in the Internaceased production will continue to receive full pay and

tional Tin Council buffer stock operation in 1985 convinced Comibol to shift the bulk of its production from tin to zinc, but it has failed to secure the long-term contracts which have shielded some private Bolivian zinc producers from the price slide

cinc-silver mine, and San Jose, a lead-silver mine, have closed. Mr Guzman says others due for

only Comibol mine likely to new reserves have been developed. Low grade reserves can be exploited only if there is an upturn in zinc prices, which remains unlikely. The corporation is therefore

not sell. Its productive min

are fast running out of high

grade ores and virtually no

trying to switch productionback to tin, but it is unable to do this, or to develop new reserves, without foreign investment. This is precisely why the prospect of an unfavourable decision by the Supreme Court strikes fear into the hearts of Comibol executives, since it would, in the words of one industry observer, "worsen the already tarnished image of the govern-ment and Comibol with foreign investors" and condemn the remainder of the corporation's mining operations to indefinite

According to industry sources, Comibol has over 2,000 ore deposits. This fact alone will ensure that foreign and private capital will continue to take an interest in joint ventures with it. But the stateowned corporation's great handicap has been its high political profile and inescapable links to the government of the day.

support

BI-IGHS AND

LAS FOR 1993

Comibol can only continue hoping for an enlightened administration which will allow it the freedom fully to exploit its remarkable poten-

## Sugar price down further despite lower Cuban crop

Cuba's sugar crop will be only high of 13.26 on May 17.

5.5m tonnes, a figure matched this week by E.D. & F. Man,

writes David Blankwell.

um, 99.7% purity (6 per ton)4

per, Grado A (2 per

262.5-8.5 272.75-3.0

Michael (5 per terrau)

FINAL CONFIRMATION that 11.15 cents a lb - well off the mated Cuban production at

last year's 7m tonnes did not Monday night's announcement also of London. prevent a further decline in from Cubazucar, which put the New York raw sugar prices outcome of the troubled harvest well below all recent trade In late trading yesterday the estimates. Czarnikow, the Lon-July contract was down 0.63 at don trade house, last week esti-

200/264

Production in Cuba, the world's biggest exporter, has been hit by bad weather and problems with the country's crumbling infrastructure.

Karb close Open Interest

25,480 kgm

206-7

Falls in production in Cuba, Thailand and India have led to early predictions of a world changed to predictions of a def-

after a flat period between last nearby New York traded

surplus this year being between 8 and 9 cents a lb. However, the market has icit, averaging around 2m eased back recently as physical demand for sugar has not been tonnes below consumption. This has been enough to evident, partly because of the drive prices sharply higher high prices.

#### WORLD COMMODITIES PRICES MARKET REPORT

#### On the London buillon market GOLD failed to build on overnight. gains in New York, and lost ground

said that the US funds did not seem interested in buying in New York, even on the dips down to \$370 a troy ounce. Without fund buying, a bout of trade selling in Europe was enough to weak the price. Three-month COPPER hit profit taking and technical ance between \$1,850 and \$1,860 a tonne on the LME, and prices eased. Technically, the market is still trading within a band between \$1,820 and \$1,850, dealers said. ALUMINIUM perked

#### London Markets

SPOT MARGETS		
Crade oil (per bend POR)U	<u> </u>	+ 01
Duba	\$15.58-5.942	
Brent Bland (dated)	\$18.08-8.10	
Brent Blend (Jul)	\$18,36-8.38	
(Den est)	ITU. 170-41.07:2	-0.00
Oil products		
(NWE prompt delivery per to	mme CIF	+ 07 -
Premium Gesoline	\$209-211	
Ges Oil	\$169-170	-2
Heavy Fuel Oil	\$67-69	-1
Naphthe .	\$184-186	-0.6
Petroleum Argus Estimates		
		+ or -
Gold (per tray az)\$	\$375.45	-1
Silver (per troy az)	456.5c	4
Pletinum (per troy oz)	\$388,00	-3
Paltadium (per troy oc)	\$119.60	+1,6
Copper (US Producer)	88.0c	
Lead (US Producer)	34.63c	
Din (Kugis Lumpur market)	13.69r	+0.01
in them York)	2500	There .
Zinc (US Prime Western)	62.0c	
		-
Cattle (live weight)	142.58p	222
Sheep give weight)†¢	138.94p	+1.76
Tiga (live weight)†	91 94p	+0.46*
.ondon daily suger (new)	\$293.8	+3.8
ondon dalily sugar (white)	\$292.0	84
Tate and Lyte export price	2302.0	+f
Sarley (English feed)	Ung	
Asize (US No. 3 yellow)	Σ166.5	
	Ung	
Wheat (US Dark Northern)		
kubber (Jun)♥	59.25p	
Aubber (July)	59.50p	
Dupber (KL RSS No 1 May)	209.5m	-0.55
Coconut of (Philippines)§	\$445y	-5
alm Oil (Malayskar)§		+2.5
cora (Philippines)§	\$265u	
oyabeans (US)		-0.5
oyabeans (US) atton "A" Index	59.85c	-
amon "A maex facilitada (643 Super)	362p	

up in late kerb trade, alded by news that unions involved in Alcoa and Revnolds Metals talks had voted to authorise possible strikes. But traders say a strike is unlikely, and as hedge cover has been put in place, the market is more likely to ease if new labour contracts are agreed. London COCOA futures continued to drift in a narrow band with the market still hovering just above a recent seven-month There was little reaction to E.D. & F. Man's increased deficit forecast for 1992-93 to 124,000

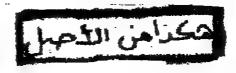
118,0	mpiled	Sep Nov Jas Mar	946 946 949 956		
UQA	- Lumb	POX	(\$ per tonne	Mey	963
Thite	Close	Previous	High/Low		er: 3800 (26 dicator price
wg .	264,50	294,70	297,00 284,50	25 Cor	mp. daily 55
ot	284.50	294.70	297.50 284.90	(53.95)	
396	291.00	295.90	001/00		
Aar	285.50 290.00	296.00	291,20 295,60	POTAT	(DE) - Le
Amy Mg	296.00	292.00 297.00	295.90 290.00 301.00 298.00		Close
)ct	292.00	296.10	207.00		
				Mer	102.5
	725 (837) 81.24 Oct		(FFr per tonne):	Apr May	101.6 111.0
<b>ng</b> 101	9124 UC	1562-97			
<b>PUDE</b>	GEL - IF	E	S/barrel	Tumge	w 359 (12)
	Lima	й Римо	us High/Low	SOVAL	ntat – Le
ul _	18.37	18.49	18.49 18.35		Close
NZ.	14.50		18.59 18.48		
eb.	18.6		18.68 18.61	Aug	142.30
lct	18.73		18.73	Oct	144.80
lov loc	18.84		16.54	Tumove	r 20 (475) I
	18.84		18.84		
eb	18.83		18.83		T-lim
E Inde			,,,,,,		
umčnos	14103 @	5448			Close
		- 7		Jun	1475
				Jul	1340
AS CI	L - IPE		\$/torne	BFI	1642
	Close	Previous	High/Low		r 160 (275)
an .	168.75	169.76	170.00 167,50		a san Brind
4	170.25	170.25	179,68 168,75		
ug	172.00	172.25	172,26 171.00	OF PARTY	- London
병	174,25 177,50	174.50 177.75	174,25 178,25 177,25 178,25	Minest	Cicee
OV	179.50	180.00	179.50 178.75	Jan	138.75
BC	181.50	182.00	181.50 180.50	Nov	108.55
<b>17</b> 1	182.00	182.50	182.00 181.25	Jan	111,45
				Mar	113.90
THOVE	12000 (17	/875) lots o	f 100 tonnes	May	118.05
WOOI				and the same	Close
				Sec	

weat's pause. Demand for other wools was good at firm prices, and the overall Australian Wool Corporation market indicator had recovered 8 cents by May 28 to 463 cents a kg., only 2 cents a kg., only 2 cents athart of its peak two weeks before

	Close	THE OWNER, NA	High/Low	
May	643	637	842	
Jej Bep	965 661	864 860	665 661 661 677	
Dec	702	700	70: 698	
Mar	721	720	721 719	
May	734 749	795 749	794 751 749	
Sep	785	762	760 763	
Turnow	r: 3448 G	2927) loss of	10 tomes	
ECCO N	ndicator p	rices (SORe	per torriet. (	Daily pric
26 699	, 18 (700.7	2) D (201/1764) J	O day sverag	ID TOT NAME
		•		
COFFE	E - Lond	es POK		\$/lons
	Single	Previous	High/Low	
May	919	800	920 806	
Jul	934	918	940 925	
Sep	936	222	943 929	
Nov Jas	946 949	936 936	948 941 951 943	
Mar	956	936	982	
Mey	963	945	150	
Tumove	- 3000 C	1950) tota of	5 formas	
ICO Inc 25 Con	MCBIOT pric	285 (US CRII 5.63 (55.27)	ts per pound 15 day aven	) for Ma
51.55		man parti	10 44 44	-Q= 3330
POTAT	DES - La	mine POX		£/tonn
	Close	Previous	High/Low	
Mer	102.5		1025	
Apr	101.5	96.5	101,8 97.0	
May	111,0	105.0	111.0 107.	9
Титоч	369 (12)	loss of 20 I	idrimes.	
SOYAM	MAL – Le	mdan POX		E/lumi
	Close	Previous	High/Low	
Aug	142.30		142.30	
Deř	144.80	-	144,80	
lumove	20 (475)	lots of 20 t	onnes,	
	سفاء ۲	m pox	\$10/m	dex point
	Close	Previous	High/Low	
Aun	1475	1500	1500 1475	_
W	1340	1385	1360 1415	
Det	1400	1418	1420 1400	
9F1	1642	1640		
inpose.	160 (275	1		
No.	-1000	POX		Efforms
Most	Cicee	Previous	High/Low	
_	138.75	138,50	155.70 100.	
t en				
	108.55	106,65	TUBBO TUB	20
ilo= ian	111.45	111.45	108.55 108. 111,45 111.	
Nov Jan Mar	111.45 113.90	111.45 113.90	111,45 111. 113,90 113.	<b>6</b> 5
Nov Jan Mar May	111.45 113.90 118.05	111.45 113.90 176.00	111,45 111, 113,90 113, 116,05 115,	<b>6</b> 5
Nov Jan May May	111.45 113.90 118.05 Close	111.45 113.90	111,45 111. 113,90 113.	65
Now Jen May May Sep	111.45 113.90 110.05 Close	111.45 113.90 176.00 Previous	111,45 111, 113,90 113, 116,05 115, High/Low 105,15	<b>6</b> 5
lov len ler ley len len lep len	111.45 113.90 118.05 Close 105.95 110.65	111.45 113.90 176.00	111.45 131. 113.90 113. 116.05 115. High/Low 105.15 110.66	65
Nov Jan Mar May Bunling Sep Jan Mar	111.45 113.90 118.05 Close 105.95 110.65 112.15	111.45 113.90 176.00 Previous	111.45 131, 113.90 173, 116.05 115, High/Low 106.15 110.66 112.15	65
Nov Jen May May Sep Jen Mer	111.45 113.90 110.05 Close 105.05 110.05 112.15 Wheat 2	111.45 113.90 176.60 Previous - 110.90	111.45 131. 113.90 113. 116.05 115. High/Low 105.15 110.66	65
Nov Jen May May Sep Jen Mer	111.45 113.90 110.05 Close 105.05 110.05 112.15 Wheat 2	111.45 113.90 176.00 Previous	111.45 131, 113.90 173, 116.05 115, High/Low 106.15 110.66 112.15	65
Mary Markey Sep Jan Mer Turnover Turnover	111.45 113.90 110.05 Close 105.95 110.65 112.15 Wheat 2	111.45 113.90 176.60 Previous 110.90 89 (255), 8a 83 Torres.	111.45 131. 113.90 113. 116.05 115. High/Low 106.15 110.66 112.15 Hoy S3 (11).	66 80 
Nov Jan Mar Mar Mar Mar Mar Aumover Cerrover	111.45 113.90 110.05 Close 105.05 110.05 112.15 Wheat 2	111.45 113.90 176.60 Previous 110.90 89 (255), 8a 83 Torres.	111.45 131, 113.90 173, 116.05 115, High/Low 106.15 110.66 112.15	66 80 
Nov Jan Mar May Barley Sep Jan Mar Purnover Centover	111.45 113.90 110.05 Close 105.95 110.65 112.15 Wheat 2	111.45 113.90 176.60 Previous 110.90 89 (255), 8a 83 Torres.	111.45 131. 113.90 113. 116.05 115. High/Low 106.15 110.66 112.15 Hoy S3 (11).	66 80 
Nov Jan Mar May Barking Bar Jan Mar Cumover Cumover	111.45 113.90 110.05 Close 105.95 110.65 112.15 Wheat 2 16ts of 10 Close	111.45 113.90 176.60 Previous 110.90 88 (255), 8a 13 Torres.	111.45 111. 113.90 113. 116.05 115. High/Low 105.15 110.05 112.15 Hoy S3 (11). Cash Soldern	66 80 
Nov Jan Mar Mar Mar Mar Mar Aumover Cerrover	111.45 113.90 110.05 Close 105.95 110.65 112.15 Wheat 2 talk of 10	111.45 113.90 176.60 Previous 110.90 89 (255), 8a 85 Torres.	111.45 131. 113.90 173. 116.05 115. High-Low 106.15 110.66 112.15 Hey S3 (11).	66 80 

Cash I mente	5680-70 5730-5	563 565	5-36 0-5	5725/506	0	9660-6 5727-8	5706-1	10 46	9,366 tota	
The (\$ per to:								tal daily but		ânês.
Caeh	5405-10 64 <b>6</b> 5-70	586 545	5-406 5-60	5510/580		5415-20 5475-80	5500-1		254 lots	
Zhc, Specie	i lägh Gr	ede (\$ pe	torarel				Total	daily tumov		iota
	955-6 . 973-4		545	953.5 979/970	- 5	950-60 977-7.5				
LME Clothe	9/8 cuts			51 8 61 4		111-12	<u> 971-2</u>		1531 INM	_
LME Clouing SPOT: 1,548	5	3 400	1.	3368		morete 7	\$865 	E n	confirs 1.5	214
1.0HDQNI BULLION SIANCEY Prices supplied by N M Rollschild						ew Y	ork			
		M Rother								
Gold Broy oz Close			l est		GOU	D 100 boy	CC.; S/boy (	be,		
Denning	375.20- 378.30-					Close	Providen	High/Loc	W	_
Morning fix Albertoon fix	374.50		243.70		May	375.2	378.5	Q	Q	_
Day's Nigh	378.60	379,10	242,72		July	375.3 376.3	378.7	374.8 0	374.2	
Day's low	373.90	_			Aug	377.A 379.2	360.7	376.8	278.2	
Loco Ldn 🛎	ees Gald	Londbay	Rates	Vis LISS)	Dec	361.0	384.3	380.9 382.5	378.5 380.0	
1 month	254		aniins	2.51	Feb	382.6	385.0	364.0	<b>IIII.5.1</b>	
months.	2.54 2.51	12 m		2.51	Apr	384.3	387.6	367.5	384.0	
Show the	D/MON C		US of		FLAT	NAUM 50	toy az S/tra			_
Spot	BK(0)		455.50			Close	Previous	High/Los	,	_
TOTAL S	296.15		458.70		Jul	388.8	390.9	391.0	386.0	_
i maring	302.00		402.00		OE5	397.1	386.3	390.0	357.0	
12 months	310.90		471.35		Jen Apr	396.3 386.1	388.5 388.2	388.0	386.0	
BOLD COM						FR 5,000 to	Dy OZ; CHRO	Alegy co		
	\$ png		0	Autoni	_	Close	Previous	Highton		_
	<u>_</u>				May	454.9	462.9	458.0	455.0	_
Gugerrand Maple load	N/A	37.50	242.00	9-244	Jun	455.2	463.2	0	0	
New Sovereig	n 89.0-6	2.00	57-59		Sen	456.3	464,3 467.5	480.0 483.0	454.0 457.0	
					Sep Dec	469.5 464.3	472.3	456.0	482.0	
TRAPED OF	TIONS				Jan Mar	464.9 469.1	472.9	0	G	
Vendelun (Pi	9.790	Cath		Diff	_	472.8	477.1 480.6	472.0 477.0	485.0 475.0	
drine price S	toring J	ul Sep	<u> </u>	Sep	Jai	475.8	483.9	480.6	479.0	
125	3		16	-	Sep	479.8	487.8	Q.	0	_
150	1		26	33	12.0		OPPER 25,0		caritys.	
175		25	45	47		Diete	Previous	High/Low		
apper (Grad	6 A)	Calls	_	Puts	May An	82.30 82.00	82.00 82.05	82.50 82.30	82.00	_
800	8		36	57	البال	82.20	62.35	82.80	81,90 82,00	
850 800	5		27	80	Aug	82.50	82.80	82.40	82.40	
-40	3	3 59	87	108	Sep	82.75 82.85	82.65	83.25 0	82.75 0	
					Nov	83.35	83.35	Ö	Ď	
20ffine				Sep	Dec	83.50	83.80	23.100	<b>80.5</b> 0	
<b>00</b> 60	2		13	36 80	Jen Feb	63.85 63.65	83.75 83.85	0	0	
900	7	3 48 81	35		CALID	E CIL LIN	HQ 42,000 U	_		_
OCCUS.		d Sec	246	Sep		Latest	Provious	HighAge		_
00					<u></u>	19.77	19.90	19.88		_
25	2	16	12		Aug	19.98	20.10	20.07	19.75 19.84	
50	_	11	85	80	Sep	20.09	20.21	20.15	20.07	
					Dick Nor	20.16 20.21	20.27 20.30	20.20 20.21	20.16	
rent Credo	J	ويد اد	Jel	Aug	Dec	20.22	20.31	20.26	20.17	
750			4	12	Jan Feb	20.22	20.31	20.22	20.22	
800		-	7	22	Feb Mar	20.31 20.30	20.31 20.30	0	0	
<b>(51)</b>	16	41	23		/pr	20.20	30.29	<b>20.2</b> 1	20.20	

HEA	TING OIL	42,000 US o	pela, cents	/US gaile	C	hicaş	30		
	Lane.	Previous	HighVL	OW ·			1,000 bu min;	cents/ROb is	Landard Co.
Jun	53.80	54.28	54.25	(5.4)	_	Citose	Previous	High/Les	
- Jul Aug	54.20 54.90	54,58 55,26	54.50 55.25	54.10	Jul	612/6	807/4	613/6	606/0
500	58.00	58.29	35.15	54.90 56.00	Aug Sep	611/0	808/4	512/4	605/0
Oct	57.00	57,27	57.20	67,00	Sep	908/0	604/0	809/2	802/6
Nov	68.10	58.23	58.10	56.00	Jim	615/0	805/6 611/6	610/0 615/2	803/4 809/4
Dec	58.90 59.40	89.14	89.05	58.90	Mar	619/4	617/4	620/8	815/4
Feb	99.20	89.65 59.35	59.50 Q	89.40 D	May Jul	821/D 820/6	620/0 620/0	621/4	817/4
Mar	57.90	57.97	57.90	57.06				621/0	616/2
COC	DA 10 ton	nes,\$/tornes			_ =	Close	L 60,000 lbs;		<u> </u>
	Close	Previous	High/Lo		- Ju	21.64	Previous 21.49	High/Los 21.57	21.49
Jul	187	_			_ Aug	21.77	\$1.E2	21.80	21.65
Sep	920	860 912	894 924	896 918	Sep	21.90 22.02	21,74	57.EF	21.75
Dec	962	963		957	Dec	22.24	21,86 22,08	22.04 22.26	21,86 22,10
Mar	993	887	998	988	illan	22.34	22.17	2234	22.18
Many	1016	1010	1021	1018	Mar	22.52 22.65	22.36 22.52	22.56	22.42
لئال مهھ	1036	1030	0	0	Jul	22.77	22,00	22.65 0	22.58 0
Dec	1091	1053 1065	1055	1085	Aug	22.75	0	ō	0
Mar	1125	1119	1119	0 1119	SCY/	ABEAN ME	AL 100 tone:	S/ton	
COPF	EE +C+ 37	,500tos; cen	ts/los			Close	Previous.	High/Lov	
	Citosi	Previous	High/Lo		_ Jul Aug	192.9	192.1	193.2	191,3
Mer	82.50				- Sep	192,0	191.5 191,1	191.6	190.6
Jul	62.50 64.95	59.66 63.50	61.40 65,45	80.50	Oct	100.0	190,5	191.1	190.2 189.6
Sep	66.80	65.30	87.10	65.40	Jen	191.6 191.6	101.1	181.8	190.3
Dec	<b>69.20</b>	67.B0	69.50	98.20	Mar	192.2	191.5 192.0	191.7 192.4	180.3 191.5
Mair	71.50	70.20	71.50	70.85	May	193.0	193.3	193.0	191.5
Jus	73.75	71.85	73.00	73.00	MAZ	<b>E</b> 5,000 bu	min; cents/5	Sta burehad	
Sep	76.50	73.10 74.80	74.25	74.25		Close	Previous	High/Low	
				0	Jul	226/0	224/6		
-		-11- 112,0	20 lbe; cer	rite/lbs	Dec	291/0	229/8	227/0 231/6	223/4 228/4
	Close	Previous	High/Lo	w .	Mer	237/6 245/0	236/6	238/4	235/2
Jul	71.12	11.78	11.79	11,11	May	249/8	243/6 248/4	245/4	242/6
Oct	11,30	11.86	11.80	11.30	Jul	253/2	252/0	249/5 253/6	247/6 251/4
Mat	10.29	11.20	11.20	10.99	Sep Dec	248/4 248/4	249/0	0	0 .
May	10,90	11.08 10.29	11.09	10.90			248/4	248/4	247/4
Oct	10,74	10.93	19.85 D	10.80 Q	***************************************		ı min; cents/6	(Ib-bushe)	•
COTT	JN 50.000	cents/lbs		4	Jul	Chies	Previous	High/Low	
	Ciose					289/0 292/0	288/6 282/0	290/0	287/2
		Previous	High/Los	•	- Sep	303/2	2024	293/0 304/2	290/0
Jul	60 44	60.39	61.20	80.15	May	309/2	310/0	310/4	302/0 308/0
Dec	58.30	59.52	60.00	59.10	Jul	309/2 308/2	310/0	311/4	309/2
Mar	58.69 59.56	58.82 59.95	59.30	56.31			308/0	309/2	306/0
Mpy	60.25	60.65	60.25	59.30	TAF	ATTLE 40	tneo ;sdl 000.	s/bs	
ألياك	80,60	51.00	80.50 80.75	50,98			Previous	High/Low	
Oct	59.80	58.90	0	80.75 0	Jun	75.300	79-800	75.575	TE OCC
ORANG	E JIACE	15,000 lbs;			. Aug	73,500	73.550	73.775	75.250 73.425
					Dec	74,250	74.275	74.400	74.075
	Close	Previous	High/Low		Feb	74.175 73.750	74.175 73.725	74.325	73,975
da	111.75	111.20	11230	110.70	Apr	74.850	74,700	74.025 75.000	73.700 74,800
Sep	114.80	114.20	115.75	110.70 113,50	Jun	71.850	71.750	72,200	71,300
inco.	117.15	115.00	117.00	115.90	I.WE	IOG\$ 40,00	0 ib; cente/ib		
Jan Mar	118.95	117 75	11B 30	117.50		Charge			
May	119,76 119,70	119,25	119.75	V18.20	Jun		Previous	High/Low	
Jul	119,70	119.25 119.25	119.75	119,75	Jul	52,800 61,875	53.025	53.350	52,600
9ер	119.70	119.25	119.75 O	119,75	Aug	49.600	51.975 49.900	52.300 50.050	51,450
				q	Oct	43.750	44.175	50.050 44.350	49.275 43.650
WiDI	CES				Dec Feb	44,950	45.150	45.550	44.850
REL	TERS IB-	e:Septembe	10 555	1	Apr	45.000 43.625	45.150	45.200	44,850
	May 26	May at			-inn	49.605	43,750	43.625 D	43.625
1	1677.5		math ago	_ <u></u>	<u></u>	48.800	0	n	0
Down		1670.5	7673,0	7596.1	PORK	BELLIES 4	0,000 lbs; cer	P1/2	<u> </u>
===	ACMES (	Base: Dec. 3				Close			
l.——	May 25	May 24	meth ago		Jul	42,200	Previous	High/Low	
Sport Futures	121.14 122.38	NA	125, 18	116.88	Aug	40.375	41,125	43.000	42.075
1	100-00	MA	121,90	117.53	Feb	41.400	41,625	41.150 41.825	40.325
					May	41.400	40.750	41,000	41,175 40,400
						41.500	42 005		



THE UK SERIES

FT-A ALL-SHARE

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## LONDON STOCK EXCHANGE

A GOOD response to yesterday's £3bn auction of govern-ment bonds helped UK equities extend this week's recovery. although trading volume remained unexciting. Once again, it was left to a handful of selected stocks to provide the features as well as the backbone of the FT-SE 100 Index. A batch of large deals after the official close featured a 9 per cent stake in Trade Indemnity, the corporate insurer, sold at 47p a share, and also 5.8m shares in British Gas and large blocks of Pru-dential, Guardian Royal Exchange and GEC.

The early part of the session saw share prices moving narrowly, often responding to stock index futures. Equities turned firmer when the outcome of the gilt-edged auction was disclosed, although they waited for a clear lead from bond prices before edging higher. A further boost came when New York opened firmly, moving further above a testing

The stock market closed at the day's best, with the final reading of 2,846.9 on the FT-SE 100 leaving a gain of 9.2. While there was no rush of buying, Seaq volume increased in the final hour to record a daily total of 626.8m shares; Tuesday's 591.2m was worth

# Equity gains extended in steady trade

£1.29bn in retail business. Second line issues followed slowly in the wake of the blue chips. At the close, the FT-SE Mid 250 Index was 2.8 ahead at a new peak of 3,175.5. Non-Footsie business made up around 53 per cent of the day's Seaq business.

The success of the gilt-edged auction and firmness in sterling revived some of the more optimistic hopes for a reduc-

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oreign & Cot. 17.

tion in UK base rates, in spite of yesterday's absence of change in German repurchase rates. But few UK market strategists expect a rate cut within six weeks or so; any hopes for an earlier cut are "thinly based", commented Mr Richard Kersley at BZW, who sees little economic evidence to

support them. Attention was also paid in the market to growing hints

TRADING VOLUME IN MAJOR STOCKS

that Mr John Major plans to reshuffle the members of his around \$5,50n this year. government, perhaps this

Overall, however, strategists found little reason yesterday to reformulate their views on the outlook for UK equities. There was some relief that the gilts auction was now out of the way in a stock market where lack of institutional liquidity has become a significant prob-

around £5,5bn this year. The Footsie is still rooted firmly in the middle of its trading range, with little indication yet that confidence in economic recovery has become

Actuaries Share Indices

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strong enough to call for a rerating of equities. However, the lower end of the range, at around Footsie 2,790, is now seen as a more reliable basis for the market rebound when

The gloom overhanging the brewery sector deepened after the annual meeting of shareholders at Guinness disappointed traders. Store and con-sumer stocks tried to edge ahead at the close.

The Footsie was helped by firmness in the oil sector as both blue chips and second line energy shares benefited from a series of largely unrelated corporate developments. The banking and property sectors fortunes of Speyhawk, the City of London developer which went into receivership this

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Tyrrell as finance director of

Abbey National and his

appointment as group finance

director at London Interna-

tional Group saw Abbey dip 3 to 415p and LIG add 5 at 186p.

Reckitt & Colman was

squeezed 16 higher to 658p on

slim turnover. Paterson

Zochonis, the branded soap

manufacturer, rose 13 apiece in

the "A" stock to 398p and in the ordinary to 448p after a

small agency cross in the "A"

MARKET REPORTERS

Joel Kibazo, Peter John.

Other statistics, Page 27

Christopher Price,

Stave Thompson

## Reuters finds US support

ENTHUSIASTIC support for Reuters Holdings from the US led to a sharp rise in the share price of the news and electronic dealing group. There was added support ahead of a key foreign exchange dealers' meeting next week.

The UK market learned yestarday afternoon that Goldman Sachs had repeated its strong buy recommendation New York-based Mr Eric Philo said the company had confirmed that its core foreign exchange business was improving and its new Dealing 2000-2 automated trading system was close to achieving 1,000 trades a day. Mr Philo predicts earnings per share of up to 88.2p and a share price as high as £17

within the next 12 months. Also, dealers throughout the orld are to meet in Helsinki next Thursday for an annual foreign exchange meeting expected to be bullish for Reuters. The shares, reacting to the US-quoted ADRs, jumped 44 to 1352p with 1.1m traded.

N West Water rises North West Water's surprise move in proposing an enhanced scrip dividend at a

#### **NEW HIGHS AND** LOWS FOR 1993

NEW HORRS (171).
CANADIANS (2) Et. Montreal, Toronio-Dom., RANCO (4) Assirl, Dal Ichi, Fuji, Milsachishi, Milsaci, Nati. Austrafe, Fuji. Sk. Scottand, Salare, Saraea, Sumborno, Sumborno Tai B. Tololi, Toyo, Yesude, BREWERS (2) Mansfeld, Welherspoon (10), BJDS MAITS (8) E1858, Etit, Lilestans, Polypipe, RMC, Sharpe 3 Fisher, Shelfield Instine, Trade Perkins, CHEMS (9) E1868, Etit, Lilestans, Polypipe, RMC, Sharpe 3 Fisher, Shelfield Instine, Trade Perkins, CHEMS (9) E1868, Etit, Lilestans, Polypipe, RMC, Sharpe 3 Fisher, Shelfield Instine, Trade Perkins, CHEMS (9) E1868, Etit, Lilestans, Polypipe, RMC, Sharpe 3 Fisher, Shelfield Instine, Trade (1) Australia, CONTROL (MERCATES (8) Journal (1), Lonno, Tradaiger Mas., Do A. Wassell, CONTROL & CONTROL (S) Genero (4), Heredock Europa, Wessell, CD, Budge, Chorlede, Chiroley, CONTROL TRAINING HAND. DO A. Wasself, CONTROL

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level 50 per cent above the cash dividend equivalent, saw its stock price race shead, triggering a general advance in the water sector as dealers quickly decided that other water companies may propose similar schemes.

Shares in North West, the first water company to report preliminary figures, jumped 7 to 487p on heavy turnover of 4.6m after the scrip news, preliminary results and 9 per cent increase in the dividend. Dividend increases averaging 9 per cent have been forecast for the sector by utilities specialists. Turnover was boosted by a block of 1.3m shares thought to have been sold in special exdividend form.

Some analysts, however, cast doubts on whether other water companies will follow the path of enhanced scrip offerings. "For companies such as North West which has an aggressive expansion programme this is a good move, but the only other water company which fits the bill is Thames," was the view of one analyst.

Thames shares rose 7 to 508p, but heavily underperformed smaller capitalised companies such as Southern. up 16% at 497p and South West, reporting today, 13 higher at 520p.

#### Barclays boosted

Stockbroker Houre Govett was the driving force behind the good showing by Barclays Bank shares. Hoare's banks team upgraded its current-year profits forecast from £350m to £550m, because of what it sees as a continuing improvement in the bank's operating perfor-

mance. "We see the bank's bad debta substantially lower this year, said Mr Steven Thorn at Hoare. He rates Barclays' shares "20 per cent cheaper than those of NatWest and with better dividend growth prospects," and told clients to switch out of NatWest and into Barclays.

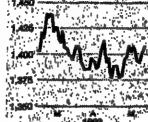
Barclays' shares continued the rehabilitation which began after the group upset the mar-ket by halving the final dividend and reporting deeply disappointing results in March. The stock price, which plummeted to 392p after the divi-dend cut, touched 462p yester-day before coming off the top to close 2 firmer at 459p on keen turnover of 5.1m.

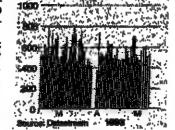
### Courtaulds rebound

Relief that no rights issue arrived with the figures helped Courtaulds, the chemicals group, to put on a sprightly performance yesterday. The shares received added support from a merger announcement

and lifted 19 to 541p. The cash call rumour, which dominated trading in the stock on Tuesday, apparently sprang from comments by the company before it went in to closed season that the debt would hit £400m. Marketmakers who took the speculation seriously had gone short of the shares. When they realised Courtaulds had been over cautious and the

## FT-A All-Share Index





debt was only 2220m there was a scramble for stock. The buying pressure was

increased by an acceptable profit of 2192.7m, a comforting statement and the news that Courtanids is to merge its acrylics and viscose division with Hoechst of Germany, providing a competitive advantage in a very tight area of the industry.

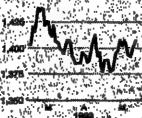
RTZ, the world's biggest mining group, rose 18 to 669p after the company's announcement of an enhanced scrip dividend and an early 1993 interim dividend payment of 13.5p per

share. Analysts said the shares also received support from BZW and UBS but in the afternoon Lehman Brothers cut its 1994 forecast by £39m to £966m on the back of low copper price estimates. The bouse also slashed its eps estimate by 9p

A one-for-one share split for BAT Industries resulted in the shares closing up 21/2 at 419p in the new form. Very high turnover of 39m shares was linked to the company's enhanced scrip scheme offering shares in place of cash dividends.

Shares in Guinness reacted badly to comments made at the group's agm, and they closed 7 off at 460p. Drinks specialists said the warning of lower profits in the 1993 first half was largely known.

BP moved up 5% to 312p on 133p on turnover of 3.4m



rated the stock a "short-term trading buy," citing short term US interest as likely to increase in the run up to the foll ADR listing expected next month. Kleinwort also highlighted the group's drilling operations in Colombia, adjacent to BP's Cusiana oil discovery as likely to heighten US

to 54p, continued to attract heavy two-way activity with big institutions said to be chasing the stock as a number of important drilling operations get underway. Clyde's current and future operations include drilling in Syria, Malaysia and the Yeman.

ahead to close 8% better at 427%p, on heavy turnover of 5.8m boosted by strong US buying.

A buy recommendation from Kleinwort Benson ahead of today's annual meeting boosted international trading group Inchcape. The shares jumped 16 to 578p, with volume reaching 2.8m. Williams Holdings hounced 4 to 314p, after 10 to 1997.

US buyers were active in Tiphook and the shares rose 12 to 311p. APV put on 4 at 97p, and the shares are shared as the same and the shares rose 12 to 311p. APV put on 4 at 97p, and the shares rose 12 to 31p. APV put on 4 at 97p, and the shares rose 12 to 31p. APV put on 4 at 97p, and the shares rose 12 to 31p. APV put on 4 at 97p, and the shares rose 12 to 31p. APV put on 4 at 97p, and the shares rose 12 to 31p. APV put on 4 at 97p.

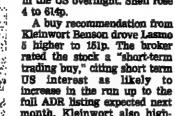
British Aerospace fell on the Rolls-Royce statement but

" High " Low

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27,64

#### news of a £250m management shares on worries of more troubling news following recent high-level suspensions at the buyout of one of the company's consumer products divisions and a good performance by oils company's US arm. in the US overnight. Shell rose The resignation of Mr James



interest in the shares. Clyde Petroleum, up 3 more

After lagging behind BT and Cable & Wireless for the past two sessions Vodafone raced ahead to close 8% better at

to 311p. APV put on 4 at 97p,

ittle improvement rading conditions over the next two years dented sentiment in the aerospace sector. The stock, sustained by barain hunters, eased only a unty to 144p on 7m turnover, entiment from Rolls-Royce tested Smittes Industries. The stock of the series of the sector of the

recovered to close unchanged at 325p. The £57.6m BAe said it was repaying for the illegal government aid it received for its 1988 purchase of Rover was not as high as feared. Pilkington eased a penny to

FINANCIAL THEES EQUITY INDICES

\*\* 1983. Ordinary share index since completion: high 239a.5 10/3/93 - low 48.4 Gold Althout Index since completion high: 734.7 15/2/93- low 43.5 28/10/71 |
Basic Ordinary share 1/7/95; Gold Mines 12/9/95.

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London report and latest Share Index Tel. 0891 123001. Cats charged at 36p/minute cheap rate. 48p at all other times.

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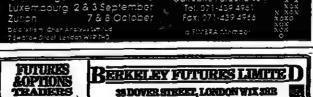
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The Chart Seminal - Proconted by David Faller - 25th year



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## **EQUITY FUTURES AND OPTIONS TRADING**

THE derivatives sector traded firmly in response to the successful UK gilts auction and suggestions of a reduction in UK base rates, although volume remained thin, writes Joel

Kibazo. In futures, trading in the June contract on the FT-SE 100 Index opened at 2,844, just below its previous finish, and initially fell back to 2,886

on a sizeable selling order. That done, the contract regained strength and moved ahead, boosted by the outcome of the gilts auction and the speculation on interest rate

A firm Wall Street ensured that June continued to move forward, although the absence of leading institutions from the day's main action meant

that volume remained low. Having reached the day's high of 2,857 just ahead of the official close, June finished at 2.854, up 10 from its previous close and 2 points above its fair value premium to cash of 5. Volume was 6,843 lots. in traded options, turnover

SEAG Barpains
Equity Turnover(Em)†
Equity Barpains†
Shares traded (mi)†
† Excluding late-market

Hanson was the busiest stock option on 2,023 lots transacted, with the August 260 calls the most active series. It was followed by Argyll at 1,204, with the majority of the trading done in was also poor, reaching 25,795 the July 330 puts. ICI, Guincontracts. Just over a third of the total was dealt in the ness and RTZ were also active.

May 21

33,158 1434.5 38,829 618.3

index options, the FT-SE 100 option trading 6,644 and the Euro FT-SE option 3,275 lots.

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## CURRENCIES, MONEY AND CAPITAL MARKETS

#### FOREIGN EXCHANGES

## Summers fails to curb yen

THE Japanese yen continued its powerful surge against the dollar in yesterday's European trading, pushing the US currency to a new historic low despite attempts by officials in Washington to curb the trend, writes James Blitz.

The Japanese currency has enjoyed a considerable bout of strength in the interval between the recent announcement of a larger-than-expected US trade deficit and today's trade talks between Tokyo and Washington, where US officials are expected to call for a stronger yen.

At the end of Wednesday's Tokyo trading, the yen had ral-lied to a historic high against the dollar of Y108.64 following a US Treasury report which underlined that a strong yen could curb the Japanese trade

As US trading opened, Mr Lawrence Summers, the Treasury undersecretary for International Affairs, watered down the impact of the report, saying that the US was not seeking an appreciation of the currency.

But this had little impact.

The yen rose to a new historic high of Y108.40 before closing in London at Y108.60. The D-Mark also fell to a new

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		May 26	Description			
		MEL SO	Prevaluati			
5.30	200	80.6	80.6			
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CURRENCY RAYES						
	WILLIAM	et mai	100			
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CURRENCY HATES					
May 76	8324 <del>4</del> 177	Apendi * Orawny Rojita	European †		
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## A Both rate refer to central basis occurrentes, instal une not custred by an O. Spore and fellows. I European Commission Colonialisms 10. 118 mars are for May 25. CURRENCY MOVEMENTS

May 26	Bank of Empland Indo	Guaranty Changes
Sterling	808	-23 16
US Douar	64 1	-14.00
Canadian Dollar	948	-6.92
Austran Screling .	1137	+15.53
Belgian Franc .	115 1	+1 00
Darach Krone	117.2	-11.20
D-Mark	122.9	+30.15
Switzs Franc	1112	+20.02
Outch Guider	1 118.7	-20.49
French Franc	1091	-7.16
Ura	82 7	-33.58
Yon	174 4	+113.56
Peseta	89.6	-30.35
Morono Guara	sty chose	IN: BWO-STA

#### Morgan Gugarany Champan: 1980-1982=100, Bark of Englar Average 1985-1075 ™Rates are low OTHER CURRENCIES

UINE	1 601			,
May 26	3			
Argenting	1,5425 -	1 5450	0.9990	- 1 0000
Australia	2.2115 .	22135	1,4346	· 14396
Brazil	62001.3 -	62040.2	40153.7	40154
Priterd	8,4630 -	8.5145	5 (050)	- 5.5000
Greece	336.200 -	342,950	217,900	- 7227
Hong Nang	11.9235 -	11,9360	7.7268	- 7 7275
Agin	2502.00 ·	2504 00	1622.00	- 1624.0
Aprea(Sitt)	1238.75 -	1245.90	796L1D	· BM 50
Kirwari	0.48475 -	0.46575	0.30100	- 0 3015
umembourd			33.45	
Maleysia	1.9495		25615	
			3.1260	
M.Zealand			1 8365	
Sauci Ar	5.7835 -		3,7495	
Singapore				- 1.607
SAI (Car)	4.9215 -	4 9325	3.1880	
5.Af 0 no	7 1485 -		4 8300	
Tahean	20 90 -			25.95
UAE	5 6055			. 3.673

#### all-time low against the yen of Y66.51 from a previous Y67.25 Mr Neil MacKinnon, chief

currency strategist at Citibank in London, believes the yen will still have a strong upside after today's meeting. "Dollar/ yen has Y100 written all over it," he said. He believes that the announcement of another rise in the Japanese trade surplus is inevitable in the next month, underpinning the Japanese currency.

Miss Wendy Niffikeer, an economist at IBJ International in London, also believes the yen has a strong upside but that it could retrace in the summer as Japanese economic weakness haunts yen holders.

In Europe, attention focused on the peseta, which suffered a sharp fall following an alleg-edly poor performance by Mr Felipe Gonzalez, the Spanish prime minister, in a pre-elec-tion to debate. The peseta fell to a close of Pta77.88 from a previous Pta76.28. In the

exchange rate mechanism grid, its divergence indicator fell dramatically from plus 55 per

cent to plus 24 per cent. The fall might have been more dramatic had the D-Mark not been weak. Yesterday, the currency lost ground against sterling, closing a full plennig weaker at DM2.5225. It also closed more than a ¼ pfennig weaker against the dollar at DM1.6320.

Once more, the critical issue is that the D-Mark is weakening despite unchanged interest rate policy from the Bundesbank, which left its repo rate at 7.60 per cent yesterday. Mr Hans Tietmeyer, the

Bundesbank vice President. also failed to push the D-Mark up or German bond yields down with hawkish comments yesterday. Instead, the German currency dropped to minus 26 percent against its ERM divergence indicator, the lowest level its has been at since the Yes vote in Denmark.

	Ecu Central Pates	Currence Amounts Against Eco May 26	Change from Carrieral	No Westunest Datement	Divergence indicator
ortuguese Escudo paristi Peseta ish Pust electr Quilder electr Franc - Maris - Maris rench Franc rench Franc	192.854 154.250 0.808628 2.19672 40.2123 1.94964 7.43679 6.53883	186.427 151.316 0.801173 2 19241 40.1802 1 95730 7.49185	-1.33 -1.90 -0.92 -0.20 -0.98 0.38 0.74	4.31 2.79 1.77 1.03 0.82 0.44 0.00 0.00	# 33 4 2 2 4 5 5 5 5 4 4 4 5 5 5 5 5 5 5 5 5

POL	POUND SPOT - FORWARD AGAINST THE POUND							
May 35	(Jay's spread	Closes	dies manth	Pa.	Donale Donale	pa.		
is and in the control of the control	1 5415 - 1 5495 1 9425 - 1 9525 2 17 10 - 1 9525 51 155 - 51 85 9 6430 - 9 9873 1 1245 - 1 0330 2 17 25 - 2 40.20 10 19 5 - 1 86.65 2 2 10 - 1 1 3773 1 1 2 20 - 1 1 3773 1 1 2 20 - 1 1 3773 1 7 6 - 1 7.73 1 2 2450 - 2 2880 1 2 300 - 1 2 845 386 blum (www.d.)	8.4925 - 8.60C5	0.40-0.73cpm 0.75-0.15cpm 0.75-0.15cpm 1-1-15cpc 0.12-0.15cpc 1-1-15cpc 1-15cpc 1-15cp	3.07 [36 -1.59 -1.57 -1.03 -1.57 -2.08 -6.59 -6.72 -1.62 -2.78 -1.13 -1.13 -1.13 -2.08 ward det	1 05-1 12lem 0.58-0.450m 3-1-0.55 3-1-0.55 3-1-0.400m 2-1-1-0.000m 2-1-1-0.000m 2-1-1-0.000m 1-1-1-0.000m 1-1-1-0.000m 1-1-1-0.000m 2-1-1-0.000m 1-1-0.000m 1-0.000m 1-0.000m 1-0.000m 1-0.000m 1-0.000m 1-0.000m 1-0.000	-2.51		

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	1 2525 - 1 2645	1.2835 - 1.2646 1.8250 - 1.8270	0.17-0 19cdes 0.67-0 70cdes	-1 71 -1 50	0 50-0 550s 1 71-1 766s	-16
	32 30 - 32 55 6 2475 6 2475 1 6 240 6 2475	33 45 - 33 56 6 2 4 25 - 6 2 4 7 5 1 6 3 1 5 - 1 6 3 2 5	12:00-13:00mis 3:00-3:50cmis 3:70-0-7105ss	-1 48 -6.24 -5.13	31 00-35 006a 7.66-8.650s E79-1 810b	29 53
	154 60 · 155 50 124 25 · 127 45	155 30 · 155 40 126 55 · 127 05	138-149cds. 95-107cds	-10 <i>9</i> 7 -921	260-2706s	-10 1 -8.3
2) 2002y . —	1475.25 · 1484.25 6.8570 · 6.9050 5.4685 · 5.5005	1467 75 - 1435 25 6 9000 - 5,9050 5,4950 - 5,5000	2.25-2 Morets 2.25-2 Morets 2.35-2.45cds	12	27 99-29,090s 6 40-7 2006 1 95-5 1505	-7.6 -3.9
rjatt #660 ≅37	7.2590 · 7.3350 108.55 · 109.05	7.3300 · 7.3350 102.55 · 102.65	7.25-1.95creda per-0.01enia	-6.97	9.10-10.00ds par-0 61ds	-52 -52
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duce being o	in Edward (	Phy on par on	COST (44) IN	IN SIGNATURE	Wi Chinel			
EURO-CURRENCY INTEREST RATES								
May 26	Shori Lerm	7 Days notice	Cree Month	Three Months	Sh Maritus	One Year		
iserbog	612 - 8 312 - 334 422 - 474 423 - 474 514 - 475 614 - 715 614 - 716 614 - 716 615 - 716 616 - 716 617 - 716 617 - 716 618 - 716 61	5 - 54 319 - 3 41 - 44 5 - 74 6 - 74 6 - 74 34 - 34 94 - 34 94 - 84 12 - 11 12 - 11 12 - 11 12 - 11 13 - 11 14 - 11 15 - 11 16 - 11 17 - 11 18 - 11	512 616 314 366 414 474 514 5 75 74 105 104 105 104 312 212	6 - 5% 3% - 5% 462 - 643 76 - 643 76 - 75 10% - 10% 76 - 76 84 - 84 84 - 84 113 - 144	8 - 55 3-0 - 3-5 10-1 - 5-1 60-1 - 5-1 10-1 - 10-1 10-1 - 10-1 10-1 - 10-1 10-1 - 10-1 10-1 - 10-1 10-1 - 10-1 10-1 - 10-1	612 - 6 314 - 314 6 - 514 14 - 44 612 - 611 104 - 104 614 - 611 104 - 104 312 - 714 314 - 714 704 - 714		

Vec Dartish Krone Agian Sing Spanish Peseta Portuguese Ess Long term Eurodoffen 6(4-6), ger cent nor	34 - 24 121 <sub>2</sub> - 12 134 - 124	34 - 34 gle - 84 34 - 24 12 - 114 124 - 134 126 - 134 1 rates are call to	312 - 314 312 - 212 1134 - 1134 1344 - 1344 199 years 5-434 y US Delay and	31, - 34, 31, - 21, 31, - 21, 11, - 11, 131 <sub>2</sub> - 13 per cent; four y Japaneses Yes;	34 - 34 8 - 71 24 - 25 1013 - 1013 1314 - 124 ears 614-614 co		10
	EX	CHANGE	CROS	S HATE	8	_	_

EXCHANGE CROSS RATES												
May 26		1	DM	Yes	P Pr.	4 Fr.	# FL	Lire	CE	B Pr.	Pps.	Bou
	. 1	1.545	2.523	167 5	8.498	2.280	2,825	2300	1.964	51.76	196.5	1.25
	0.647	- 1	LACE	108.5	5.497	1,462	1.827	1486	1.264	33,47	127.1	0.83
1966	0.396	0.513	1	66,51	3,388	0.896	1,120	9116	0.774	20.51	77,88	0.50
YES	3,959	9.213	15.04	1000.	50.64	13.47	18.84	13707	11.64	308.4	1171	7.85
F Fr.	1.177	1.010	2.969	197.5	10.	2.689	1,324	2707	2.299	50 90	231.2	1.51
S Pt.	0.442	0.684	1.116	74.25	3.760	1	1.250	1018	0.865	22,96	86.95	0.56
N PL	0.354	0.547	9.883	59,40	3.008	0.800	1	814.2	0.692	18.32	89.56	0.456
Úre -	0.435	0.672	1.097	72.96	1695	0.983	1,228	1000.	0.850	22.50	85.43	0.55
G S	Q.512	0.791	1,291	85.88	4.349	1,157	1.446	1177	Ī	26,48	100.8	0.657
B Pr.	1.932	2.987	4.875	324.3	16.42	4.367	5.459	4444	3,776	100	379.7	2.48
6.00	0.503	0.787	1.284	85,38	4.325	1.150	1.438	1170	0.994	26.34	100.	0.85
Eck	0.779	1,204	1.965	130.7	6.618	1.760	2.200	1791	1.522	40.30	153.0	1.

## FINANCIAL FUTURES AND OPTIONS Strike Price 102 103 104 105 106 107 108 109

DIEG GILT FOTURES OPTIQUES LIFTE BURD SWISS FRANC OPTIQUES LEFE BURD R												
SATIS of	100% 100%	PTIONS		HO SWISS paids of		PTIONS		11974 BL	PRD FUTUR OO paktis	et 180% et 180%		
Calle-2: Sep 2-43 2-00 1-28 1-00 0-41 0-28 0-17 0-10 d votume 1 day's open		Sep 0-43 1-00 1-21 1-00 1-41 3-28 4-17 5-10 4633 Path		0.86 0.41 0.18 0.04 0.02 0.01 0 0	Sep 1.10 0.66 0.62 0.41 0.23 0.11 0.06 0.03 out. Cals 1	0.02 0.13 0.38 0.60 0.84 1.09	ttlements Sep 0.01 0.02 0.05 0.07 0.14 0.27 0.47 0.69	Strike Price 9300 9350 9450 9500 9550 9600 9650 Estentions	\$69 1.63 1.28 0.96 0.89 0.48 0.34 0.24 0.16	triements Dec 1.94 1.61 1.30 1.04 0.81 0.62 0.47 0.34 otal, Calls 5	Sep 0.30 0.43 0.66 1.15 1.51 1.91 2.33 25567 Pu	0.4 0.6 0.8 1.3 1.9 1.9 2.3 45 586
UROMARK Policies of 1			LIFFE IT	ATTAN CO.	VT, 80ND ( Ura 202	877) FC or 1900	FURES of 100%	LEFTE SE 2500,000	IORY STEE	196 0°17 100%	OHS	

0.07 0.26 0.77 1.70 1.42 5.82 7.80

93.33 93.11 94.07

Low 117.08 116.84 116.32

0ec 1 18 1.39 1.63 1.89 2.18 2.49 2.82 3.17

Prev. 110-05 108-29 107-23 106-15 105-16 104-15 103-17 102-22 101-05

High 96.88 96.75 96.40 96.25

PHILADELPHIA SE E/S OPTION 231,250 (contr per £1)

0.04

7 to 10 YEAR 10% HOTIGHAL PRENCH BOND DEATH) FUTURES

THREE-MONTH PRIOR PUTURES (MATTE) (Paris Interprets offered rate)

-0 02

BASE LENDING RATES

Equatoral Bank pic ..... 6 Beter Bank Limited ..... Financial & Gim Bank ....

BPobal Flaming & Co \_6 

Habib Bank AG Zurich "6

Heritable & Gen Inv Sk. 6

Hangkong & Sierzdei. E Julian Hodge Bank ...... 6 Bl.sopold Joseph & Sone 6

C. Hoare & Co ....

Open Sett pros 117.16 117.10 116.90 116.84-116.40 116.34

May 1884.0 1887.5 40.50 1904.0 1847.0 1871.0 47.00 1557.0 1871.0 47.00 1557.0 1871.0 47.00 1557.0 1871.0 47.00 1557.0 1871.0 47.00 1557.0 1871 1887.5 1871.0 1867.5 1889.5

June 113.86 113.60 -0.02 :13.72 Estimated volume 2,042 † Total Open Pracest 14,224 OPTION ON LONG-TURN FRENCH BOND (MATE)

92.65 93.37 93.79 94.07

CAC-40 FUTURES (MAJTP) Stock Index

ECKI SOND (MATER

Adam & Company ...

AIB Bank ...... Hienry Ansbecher

Bank of Cyarus

Bank of India ..... Bank of Scotland ...

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wa Snapley ...

CL Bank Nederland ... 

B & C Merchant Bank \_ 13

Banco Bibao Vizinya...

PARES

Jun 0 0.01 0.06 0.24 0.48 0.70 0.95 1.20

0.74 0.53 0.35 0.21 0.13 0.08 0.05 0.03

\$60 0.04 0.08 0.15 0.26 0.43 0.63 0.85 1.08

1.94 2.73 3.78 3.08 6.61 8.28 10.18

Open in 153,564 68,145 4,479

53,284 48,649 39,413 25,021

17,218 29,366 2,369 12,697

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Members of British

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8		ttlements	Pugs-90	ittemente	Strike	Calls-as	ddenoria	Puts-se	ď
e	Jun	Seo	- Jun	Sep	Price	Seo	Dec	5ep 0.93	
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•	0.18	0.92	0.03	0.02	9900	1.63	1.72	1.30	
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	0.01	0.31	0.61	0.16	1005	0.92	1.08	2.09	
1	0	0.19	0.85	0.29	1010	0.72	0.91	2.39	
i	0	0.11	1.10	0,46	1015	0,58	0.76	2.73	
lec	enterna l	otal, Calls 7	SAR Pub	384R	Felimeter	wines t	ora, Calls	143 Puns	1
15	day's open	int Calls I	51244 Pa	ts 93958	Printions :	day's upen	ist. Calls 4	202 Pup	Ž
D	ON (L)	FFE)			CHEC	LGO			

1	LUME		Lad		
		TONAL BRIT 32mile of 1			
		Close	High	LOW	Pre
	Jun		104-28	104-97	104-0
	5ep	104-00	104-02	103-14	103-1
	Estimal	ed voluma	117640	(73483)	
ı	Previou	sday's op	en int. 7	2211 (770	<b>59)</b>
.	IS TRE	ASSURE VIEWS	15 8% °	-	

	s day's op		(0)	
6% NOT	IONAL CERM IOO 1000bs 1	(180% 180%	BONO -	
Jun Sep	\$4.08 94.33	High 94.39 94.62	Low 94,03 94,28	Pre 94,3 94,5

Close 110-12 109-04

Jun Sep	\$4.08 94.33	High 94.39 94.62	94,03 94,28	Prev. 94,32 94,58
Estimate Previous	s (181A,2 obe	92769 (1 in int. 16	07062) 3268 (16	0392)
	ORAL MEDI ORL) DM250	,000 100t	es of 1007	-
Jun Sep	(2088 98.49 98.80		98.46 98.83	Prev. 98.65 98.98
Estimate Provious	SOO S.ARED 19	5248 (88 In Int. 22	83) 923 (1 <b>9</b> 9)	341
6% NOT	ONAL LONG	TERM JA	PARESE GO	WY.

SOMO Y	180m 1986	a of 100%		
	(2096	Hügh	LOW	
שונ		108.10	107.91	
245		107.21		
Estimat Traded	enclusively	3140 (2) on APT	364)	
原 图	TRESSLIEN Ion 1988ths	LUNE GOVE	, post (FT)	1 .
	Close	Librate	I area	Birm

Jun Sep	99.50 99.33	High 99.74 99.50	99.43 99.30	79.59 99.39
Estimate Previous	id volume day's ope	14770 (1 an ant. 40	9212) 304 (412	71)
18% NOT Plu 20m	TOBIAL SPAI 1800ms of	BESH COUT 100%	. BCMCP 48	CHOS)
Jun	94.12	High 94,11	10W	Prev.

Juri Sep Esternia Previous	94.12 ad volume s day's ope	94,11 148 (171 10 kg. 47	94,00 30 (4895)	ilini
	ICHTH STER points of			
1	(2000)	High	LOW	Prev.
Sen	94.05	94.07	94.02	94.04
Dec	94.11	94.12	94.04	84.07

Mor Est. Vol Previou	93.80 . (mc. Egs. 53.80	not show not on 31	93.74 m) 42887 4120 (31)	93.77 (64139) (233)	
	FONSH BURG nts of 180%		•		
Ukin Sep	96.68 96.48	High 96.67 98.49	LOW 96 65 96 45	Prev. 96 68 96 50	
Dec	95,94 95,82	95.96 95.77	95.92 95.77	95.98 95.85	
Est. Vol. tinc figs. not shown; 1881 (1110) Previous day's open int. 18415 (18151)					
	CONTH EURO				

	CONTH EDRO points of 18			
Jun Sep Dec [/ar	Gloss 92.65 93.40 93.90 94.25	High 92.77 93.51 94.01 94.38	1.0W 92.64 93.37 10.10 94.25	Prev. 92,77 93,52 94,01 94,37
Praviou	ed volume a day'a opi	86426 (9 in int, 66	0588) 1017 (65)	2375)

THREE MIGHTH SCU ECU IIII polists of 190%								
	Close	Historia	Low	Prev.				
Jun	32.48	B2 50	92.46	92.54				
Sep	93.17	93 21	93.15	23.24				
Dec	93.46	93.48	83.46	93.51				
Mar	93.73	93,76	93.73	93.79				
Eministred volume 3062 (1491) Previous day's open int, 26993 (26854)								
THREE MONTH ELIRO SWIES FRANC SPR 100 points of 100%								
	Close	High	des	Prev.				
km	R4.91	94.06	94.91	94.94				
-	DR 94	ON 1945	ME 700	05.20				

Am Sap Dec	Close 94.91 95.34 96.59	High 94.95 95.38 91.63	94.91 95.32 95.60	Prev. 94.94 95,39 95,87
Mar Estamated Previous	95.71 volume day's ope	95.75 6469 (14 11 int. 40	95.72 824) 953 (417	96.78

	Cab bojuga Cab bojuga		RATE	
Jun Sep Dec	Close 83.52 90.07 90.29	89.61 90.13 90.34	LOW 89.92 90.06 90.28	90.13
Mar Estimate	90,46 i votume day's ope	90.51 3348 (40	90.49 79)	90,33 90,51
FT-SE 100	SIDEX .	41		

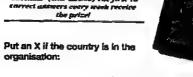
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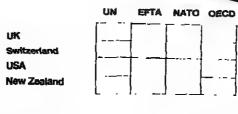
# 1-mit. 3-mit. 6-mit. 12-mit. 1.5416 1.5351 1.5265 1.5125

## The Co-operative Bunk ...5 Coutte & Co ....

## National Westminster Bank ARE YOU AN EXPORT







Name				
Title	_		 	
Company		:	 	-
Address			 	
		3		

menster Sonk Ptc. Inter and Banking Services, 3rd Floor, Webb House, 210 Pentenville Road Kings Cross, London, N1 SJT.

## MONEY MARKET FUNDS

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**Money Market Trust Funds** 

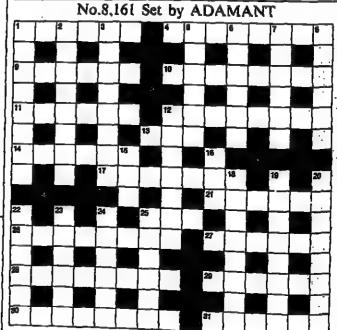
Depose \_\_\_\_\_\_ of Church of England; Cent. Bd. of Fig. of Church of England; 2 Fore Street, Landon HCZY 540 \_\_\_ | 5.82 | 3-850 Gardnore Money Management Ltd. 18-16 Manager St. Langua BC37 800

**Money Market** 

Bank A	<b>1CC</b>	;UU		3
1	G-022	Het	-	
ALB Bank High Inte Bernot Ad, Lebridge U 02-501-29,999 210,000+	rest Cla 80 1\$A 1 274	1.70 2.51	0900 2 2.79 179	6211 Q
Althen Huma Bank	pic	رعمرين ا	071-636	907
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CROSSWORD



ACROSS 1 Clean things up after cooking one fry-up (6)
4 Rising currency in Germany Rising currency in Germany and in France brings high

prestige (2-6)
9 A woman in an expensive car

prestige (2-6)

A woman in an expensive car is less cautious (6)

Seep through that the Parisian family man was round the joint (8)

The group clamour about the two days left (6)

The principal chamber has sufficient space above (8)

Lawyer's drinking hole (3)

The way an old convict got to the prison camp (6)

Foreign domination and chaos over sunless Wales (7)

Use the shuttle as well for night manoeuvres (6)

Mean to cheat you first (6)

Raising no vote in America's racist group – what a hoot! (6)

Units of fuel costs for the hotel included in the price (6)

Fuzz we hear on cheek is a facial disfigurement (4-3)

How to stop the joke being told? (3)

Another long wait outside for the sleeping car (5-3)

Unfortunately it's on lease to a heel! (8)

Brood over precise measurement of the ring (8)

Sulphur should be searched for (8)

Mean to cheat you first (6)

Carbohydrate for a stiffer

25 Money oox (3)
26 Leave behind when abroad on second tour (8)
27 Criminal Office getting increasingly slow over an increasingly slow over an condition (2.2)
28 Mean to cheat you first (6)
29 Carbohydrate for a stiffer result (6)
20 Opt out after mine came up to reak condition (2.2)

28 Bring new life to disaffected teenager (8)
29 Mass of blood the man should

dress (6)

Where non-English Soho
types cater for childish
lastes? (8) 31 Slowly progress to sort out the lines (6) DOWN

i Buy teabags? Well, tea in a buy teanags? Well, tea in a bag! (8)
2 Led US air redeployment to what was left (8)
3 An unattached boy possessing nothing can sponge on friends

peak condition (3-3)

Solution to Puzzle No.8,160

5 Choose to attribute in both senses to the quiet start (6) 6 A member and a lawyer pro-vided the main group of attachare (6)

attackers (6)
Raising no vote in America's

## MONEY MARKETS

## Gloom on Germany

DEALERS in German interest bring the September Euromark rate futures reverted to a fairly bearish outlook on Bundesbank rate cuts vesterday, as evidence accumulated that Frankfurt was concerned by the weakness of the D-Mark, writes James Blitz

The Bundesbank left its repo rate, with which it provides weekly funds to commercial banks, unchanged yesterday at 7.60 per cent.

UK clearing bank base lending rate 6 per cent troos January 26, 1993

That decision had been well anticipated by the market, but a greater source of bearishness was a speech from Mr Hans Tietmeyer, the Bundesbank Vice President, who echoed the rather hawkish tone on rate cuts made by colleagues earlier

Mr Tietmeyer said that the gradual easing in German monetary policy had enjoyed a certain success but that monetary growth was "still

rather high." He also underlined that long term rates were more important than short-term rates in the formulation of policy. This compounded the bearish mood on a day when 10 vear German bond vields rose from 6.87 per cent to 6.90 per

All these factors helped to £1.15bn was easily despatched.

contract down 13 basis points to a close of 93.39. The June contract closed down 12 basis points at 92.65. With 3 month money at 7.43 per cent yesterday, the latter contract priced in little change over the

next few weeks. French futures barely responded to the move, with dealers biding their time to see how far the de-coupling of French and German rates can go. The September Pibor contract closed more-or-less unchanged at 93.32.

Portugal appeared unaffected by the unchanged policy in Germany yesterday, again cutting its key "mop up" rate by 100 basis points to 12 per

There was more bullishness in sterling futures markets as speculation intensified that the UK might have a new chancellor in the next few

weeks. Two dealers said they were mystified by a market assumption that a new chancellor could cut rates soon after taking office. However, the September contract rose 6 basis points on the day to close at 94.22, a level that assumes 25 basis points off 3-month money

by the autumn. Three month money closed per cent softer at 52 per cent. A morning shortage of

## FT LONDON INTERBANK FIXING (11.00 a.m. May 26) 3 months US dollare il morrani US Domici bld 3/4 offer 3/4 bid 3,5 The fixing rates are the arithmetic means rounded to the necrest one-state-enth, of the bid and offered rates for STOm quoted to the market by five reference banks at 11.00 a.m. each working tay. The banks are known Westminster Bank, Bank of Tolyo, Deutsche Bank, Bankse stational MONEY RATES

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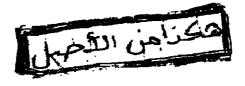
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IN STOCKHOLM.

## Fall in bond yields helps to underpin Dow

#### Wall Street

US share prices traded in a narrow range yesterday after more bad news on the economy kept buyers in check, but another fall in bond yields prevented the markets from losing any ground, writes Patrick Harverson in New York.

At 1 pm, the Dow Jones Industrial Average was up 2.49 at 3,519.12. The more broadly based Standard & Poor's 500 was 0.76 higher at 449.61, while the Amex composite was up 0.67 at 434.74, and the Nasdaq composite up 3.89 at 693.93. NYSE volume was 140m shares

Trading opened subdued, with prices edging higher across the board. Market sentiment was affected by yet more bad news on the economy - a flat April durable goods orders

Analysts had been expecting orders to have risen by between 1 per cent and 1.5 per cent last month, but the figures suggested, yet again, that the economy is struggling to make headway after its unsustainably strong final quarter of

Fortunately for equities. bond prices continued to climb, even though the rise in bonds was triggered by the poor economic data. By early afternoon the benchmark 30-year government bond was up % at 101%, and the yield was back down

below 7 per cent. Politics continued to affect the markets. The House of Representatives is due to vote on President Bill Clinton's controversial budget today, and investors are worried that a defeat for the president in the House will cripple his plans to

boost the alling economy. Among individual stocks, Compag rose \$13, to \$581, after a senior executive at the computer company made promising noises about second quarter earnings prospects.

Other big computer stocks

were also higher, with IBM up \$1% at \$52, Digital Equipment up \$% at \$45% and Hew-

lett-Packard \$% firmer at \$84%. Conner Peripherals fell \$1 to \$11% in heavy trading after the company warned that it might make an operating loss in the

third quarter.

First Republic rose \$1% to \$12% on reports that the Federal Deposit Insurance Corporation had rescinded the memorandum of understanding" which has been imposed on the bank since August last year. The memoranda allow regulators to keep a close eye on banks' activities, and restrict their businesses in cer-

T2, which has been boosted in recent days by speculation that a management-led group is planning to take over the company, gave up some of its gains yesterday amid growing doubts about the deal.

The shares fell \$11/2 to \$15%. On the Nasdaq market, Novell fell \$2% to \$29% in volume of 8m shares after two broker age houses downgraded the stock following disappointing quarterly results.

TORONTO was lifted by the financial services and transportation sectors as the TSE-300 index rose 7.56 to 3,867.47 by midsession in volume of 35.1m shares valued at C\$325.8m.

The financial services sector climbed 30.03 to 2.975.22 helped by a cut in the Bank of Canada's key lending rate on Tuesday. Canadian Imperial Bank of Commerce rose C\$1/2 to

#### SOUTH AFRICA

GOLD shares were slightly higher but off the day's peaks as the bullion price slipped back amid fears of large-scale seiling overseas. The index out on 4 to 1,860 while industrials added 7 to 4.525. The overall

# Economic data give Frankfurt no inspiration

BOURSE indices mostly moved a few points either way yesterday, the FT-SE Eurotrack moving from slightly better in the morning to slightly worse in the afternoon, writes Our Mar-

FRANKFURT found nothing positive to bite on, Baden-Württemberg's inflation rate coming in at 4.1 per cent against Tuesday's 3.9 per cent from North Rhine-Westphalia, the D-Mark continuing to soften and the Bundesbank leaving repo rates unchanged. The DAX index closed 3.82

nigher at 1,622.00 as turnover rose from DM4.5bn to DM5.0bn. Strength in the big three chemicals balanced weakness in the automotive sector where Continental, which announced a warrant bond issue on Tuesday, incorporated that afternoon's post bourse weakness to close DM6.60 lower on the offcial session at DM192. Volkswagen dropped another

between Mr Ignacio Lopez and his former employer, General

PARIS mulled over details of the government's privatisation package, the CAC-40 index moving narrowly before settling just 0.66 lower at 1,890.43. Turnover was moderate at FFr2.3bn. There are hopes of a further easing in French interest rates in the near future, helped by continued strength in the franc.

Contained among the privatisation proposals, set to become law by the end of June, is one ending the 20 per cent ceiling on foreign ownership. Construction stocks benefit-

ted from expectations of an unturn in the sector flowing from the government's plans to develop infrastructure projects. Lafarge advanced FFr11.40 or 3.4 per cent to FFr352.90 and Bouveues FFr11 to FFr664.

taking was noted in Casino. down FFr3.40 or 2.5 per cent at FFr134.50 and Schneider, off

ZURICH's SMI index closed 3.2 higher at 2,247.0. In banking. UBS ended SFr9 higher at SF1977 on foreign buying. Else-where in the blue chips, Nestle's SFr20 drop to SFr1,120 preceded the setting of its rights issue price at SFr800 per registered share

down by a sharp weakening of the peseta but the general index, 0.43 higher at 259.33, made a new high for the year. Turnover was around Pta22.8bn against Pta24.6bn on

MADRID was dampened

BRUSSELS rose in spite of a further, 2.2 per cent dip in Solvay, BFr250 lower at BFr11,150, on its planned closure of two soda ash plants. The Bel-20 index closed 4.42 higher at

FT-SE Actuaries Share Indices Open 10.38 11.88 12.00 13.00 14.00 15.00 Giove FT-SE Burotrack 100 1166.44 1167.75 1167.01 1164.96 1163.04 1162.14 1162.67 1162.51 Receiv changes Ffr21 or 3 per cent at Ffr669. FT-SE Eurotrack 280 1227.59 1225.53 1228.57 1228.41 1226.22 1226.20 1226.83 1226.78 May 24 | May 21 May 25

> Base when 1800 (25/1920) Righton; 100 - 1160,10; 200 - 1230,45 (ametin; 100 - 1162,14 200 - 1224,00 1,195.35 in turnover of

FT-SE Eurotrack 199 FT-SE Eurotrack 208

The steelmaker, Arbed, and the shipper, CMB, were the day's leading gainers. The glassmaker, Glaverbel, fell BFr200, or 6.5 per cent to BFr2,900 after it predicted a big loss in the first half of 1993. MILAN continued to ease as

while further evidence of problems at Piat dampened overall

some investors took profits,

The carmaker has asked the

1156.03 1220.19 make additional temporary lay-

shares fixed down L195 or 2.9 per cent at L6,351 and eased another L100 on the kerb. IFL the holding company, lost L580 to L13,420. The Comit index lost 6.56 to 551.99.SME lost L28 to L6,586

offs at its plants which will be

subsidised by the state. The

1155.7B

1215.46

1156 RR

1217.42

1224.18

after announcing unchanged dividend of L110 on its 1992 results.

AMSTERDAM was slightly stronger helped by the rise in the dollar. The CBS Tendency

Among the day's gainers KNP BT, the paper, packaging and printing equipment group, rose 40 cents to Fl 29.00 in spite of announcing a slight loss for the first quarter of 1993.

SECTION

Nutricia recovered some of Tuesday's losses, up F1200 at F1 124.30.

STOCKHOLM saw a 3 per cent fall in the forestry sector depress overall activity. The Affärsvärlden general index fell 5.2 to 1,090.6 in turnover of SKrl.3bn.

MoDo, which reported a first quarter loss of SKr200m after Tuesday's close, saw its R shares fall SKr17 to SKr242 while SCA, which yesterday reported a rise in first quarter figures, slipped SKr4 to SKr127 HELSINKI blamed a KOP economist, bearish of the bank sector, for a fall in the Hex index of 26.0, or more than 2 per cent, to 1,209.2. KOP itself dropped FM0.50 to FM10.00.

## Venezuelan equities face an uncertain outlook

Joseph Mann considers the issues and prospects following the suspension from office of Mr Perez

f 1992 was a bad year for Venezuela's equity market, 1993 is not shaping up to be much better.

Since early last year, political upheaval and continued uncertainty over future economic policies, together with high domestic interest rates, have burt the performance of the Caracas stock exchange.

For most of this year the stock exchange has been in the doldrums. The index dropped to a 26-month low on March 17 and showed only a modest recovery until April 26, when equity prices jumped 11.1 per cent the day after Mr Oswaldo Alvarez Paz was chosen as presidential candidate by the Christian Democratic Copei

Recently, share prices have been volatile. Last week's decision by the senate to suspend President Carlos Andres Perez over allegations of corruption had little obvious effect on the market which, since then, has improved by some 1.5 per cent. However, this compares with a fall of more than 10

per cent in early May on a rumour that Mr Perez had

resigned. In contrast, the index saw a one-day increase of 11 per cent, the largest on record, in April after Copei, the main opposi tion party, chose a free market advocate as its presidential candidate for elections sched uled for December.

This latter performance second best April rise in dollar terms among the world's emerging markets, according to data supplied by the IFC. part of the World Bank.

However, the market still remains 8 per cent down on the year. Equities have had to compete against unusually high real interest rates, with some commercial banks offer ing more than 60 per cent per annum on short-term deposits in a country where inflation is expected to range between 30 to 35 per cent this year, against 32 per cent in 1992.

The Venezuelan government recently tried to encourage a decline in domestic interest

	IFC E	MERGIN	G MARKE	TS INVESTA	BLE INDIC	<b>.</b>	
	No. of	Apr 30	Dollar terms	% Change	Apr 30	ocal currency % Change	terms % Change
Market	stocies		over month			over month	on Dec '92
atin America							
Argentina	(10)	581.81	* -3.4	+0.9	357,016.40	-3.4	+0.6
Brazil	(44)	149.41	-3.1	+19.5	6,569,436.3	+24.5	+215,0
Chille	(20)	373.25	-10.1	-10.8	605.11	-8.3	-5.6
Colombiul	(8)	251,05	+0.7	+17.4	525.48	+1.7	-14,1
Minde	(50)	645,94	-5.4	-4.5	851.60	-5.4	-5.1
Vanazuela <sup>2</sup>	(8)	476.81	+32.4	-8.2	526.30	+32.6	-0.8
East Asia	4-9						
South Kores	(130)	101,85	+8.1	+3.7	108.55	+8.4	+4.7
Philippines	(11)	159.78	+4.1	+19.7	198.76	+7.5	+22.4
Takean, Chine	(76)	88.49	-5.5	-33.5	94.54	-6.5	+35.6
South Asia	4.04		•		•		
india*	(61)	69.22	-5.6	-26.1	76.55	-5.1	-19.8
indonésia <sup>6</sup>	(31)	B25	15.2	+19.0	78.45	+20	+19.3
Malaysia	(61)	195.96	+14.7	+19.8	185.57	+13.5	+17.6
Pakistan <sup>7</sup>	(8)	183.33	-5.1	-8.4	221.19	-5.0	-4.6
Thetand	(52)	232 88	<b>∓1.5</b>	-1.1	232.55	+0.6	-0.8
Euro/Mid East	fort		7110	-141	202100	1010	•
Greece	(17)	212.35	-3.6	+8.7	309.56	-5.5	+8.7
Jordan		128.17	+5.2	+9.7	180.08	+4.3	+8.6
Portugal	(5) (18)	85.83	-1.7	+11.5	86.70	-2.7	+11.0
Turicey <sup>a</sup>	(14)	138.30	+51.4	+102.0	620.93	+51.0	+126.2

rates by reducing the yields of key government debt instruments sold on the domestic market. However, commercial

rates have not yet shown

any significant response The administration, which initiated unpopular economic

reforms at the beginning of its

five-year term, deserves the

ngt Stage repyd which aws (1746 1 1771; Shign 5 1896; (Thin 3 1892; Million 4 1991; (Shipo 6 1992; (Shipo 96 1990; (Thin

credit for promoting three years of economic growth. However, last year the oilexporting republic was shaken by two unsuccessful coups

d'etat and months of related political turmoil.
For 1993, the political out. look remains confused, with Mr Perez facing impeach when he appears before the could stretch into 1994.

This year began with rumours of another military uprising and the uncertainties of a presidential campaign in which some of the major candidates have attacked the freemarket policies of Mr Perez.

investors are now concerned over what interim president Mr Octavio Lepage will do.

The country's political crises have developed during a time

of strong economic growth. Unemployment has fallen sharply and foreign investment is strong, but the government has been unable to push inflation below 30 per cent. This year the government is forecasting growth of between

3.9 and 5 per cent. But until

the political situation sattles

down the country cannot

expect steady economic and

## Nikkei average climbs by 1.2 per cent

## Tokyo

EQUITIES climbed 1.3 per cent on institutional buying in spite of the yen's advance against the dollar, writes Wayne Aponte in Tokuo.

The Nikkel average ended 264.23 higher at 20,895.99, after dipping to a day's low of 20,527.96. The Toplx index rose 21.43 to 1,639.72 and in London the ISE/Nikkel 50 index gained 7.43 at 1.263.87.

Volume was 470m shares compared to Tuesday's 437m, while rises led falls by 743 to 292, with 152 issues unchanged. Brokers said some investors had bought shares on speculation that the yen's rise against the dollar would encourage the Bank of Japan to cut interest rates. The yen closed at Y108.65 to the dollar in Tokyo.

However, an analyst at a Japanese securities house said that equity markets had already discounted foreign exchange rate considerations. The yen, he added, is expected to weaken during the latter half of this year.

lending rates: Industrial Bank of Japan moved ahead Y140 to Y2,880 and Mitsubishi Bank

Y100 to Y2,680 the buying interest in banking issues: Nomura rose Y60 to Y2,180, Nikko Y50 to Y1,120, Daiwa Y50 to Y1,340 and Nikko Y50 to Y1,120.

investors bought the shares of some cament companies on passage of the supplementary budget by the lower house will translate into more public the cement industry. Sumitomo appreciated Y19 to Y652 and Onada Y23 to Y667 Profit-taking pushed TDK, the world's largest manufac-

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Latest prices were unavailable for this edition

strong after long-term credit recent 43 per cent drop in pre- due to late profit-taking. The day's rise in the yen.

Brokerages benefited from

Kelsei Electric Railway moved Y20 higher to Y1,350 on a report that its affiliate, Oriental Land - which runs Tokyo Disneyland - and Walt Disney, of the US, had agreed to build another theme park in

suggestions that an imminent works projects and a revival of

The banking sector was lower to Y3.810, partly on its but ended off the day's high In Osaka, the OSE average

added 91.10 at 22.902.92 in vol-Roundup

THE ANTIPODES provided more new highs for the region. AUSTRALIA climbed to a 43month peak, gold shares again showing the strongest gains as the firmer Australian dollar, and rises in most resource stocks, left the Ali Ordinaries index 30.1 higher at 1.717.4.

Turnover expanded from 4\$293m to A\$346.6m. The gold shares index surged 70.3 to 1,869.8, its best level since Pebruary 1990, as some brokers said that gold bullion, cur-

could reach US\$400. Plutonic Resources legned 94 cents to A\$5.75 after reporting a second significant new prospect, Goldfish, in Western Aus-

NEW ZEALAND scraped to a new record in busy trading.

firmer at 1,540.54 in turnover up from NZ\$31.5m to NZ\$45.0m

KARACHI rose strongly towards the close ahead of a decision by the supreme court to reinstate the national assembly and Prime Minister Nawaz Sharif. This overturns the dissolution of parliament President Ghulam Ishaq Khan last month. The KSE

index put on 7.45 at 1,142.12. Mr Muddassar Malik, director of BMA Capital Manage ment in Karachi, commented that the outlook for equities was positive and forecast a 3 to 5 per cent rise in the index

HONG KONG saw profittaking and the Hang Seng index slipped 17.31 to 7,350.87. SINGAPORE reported interin selected blue chips as the Straits Times industrial index advanced 7.90 to 1,868.64 MANILA extended Tuesday gains, the composite index end-

ing 16.21 higher at 1,608.85 as

turnover rose from 148.4m

pesos to 175.2m pesos.

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NATIONAL AND REDIGNAL MARKETS			110	ESCIAY N	LAY 23 1	991				MORDAY MAY 24 7998				DO	DOLLAND BIDGE		
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Australia (69)	136,38	+2.5	131.08	94.40	115.47	129.48	+1.0	3.84	133.02	128.48	92.74	113,18	128.20	144.19	117.39	150.7	
Austria (18)	141,52	+1.0	138.02	97.98	119.62	119.60	+0.4	1.72	140.14	135.35	97.71	119.23	119.06	150.96	131.16	167.	
Belgium (42)	143,04	-1.0	137.48	99.00	121.10	117.82	-1.8	4.82	144,51	139.57	100.75	122.95	119.82	156.76	131.19	141.	
Canade (109)	129,97	+0.7	124.92	89.95	110.03	118.67	+0.6	2.78	129.11	124,71	90.02	109.84	117.99	129.97	111,41	126.	
Denmark (33)	216.19	-0.9	207.79	149.64	183.04	183.19	-1.4	1.23	218.18	210.73	152,12	185.63	165.94	225.64	185,11	247	
Finland (23)	99.73	-0.5	95.86	69.03	84.44	114.80	-1.2	1.07	100.21	96.79	69.87	85.26	116.24	100,32	65.50	78.	
France (98)	154.82	+20	148.80	107.15	131.07	133.14	+1.5	3.37	151.75	148.57	105.80	129.10	131.16	167.36	142.72	162	
Germany (62)	109.51	+1.2	105,25	75,81	92.71	92.71	+0.7	2.29	108.17	104.47	75.43	92.03	92.03	117.10	101.59	121.	
Hong Kong (55)	298,56	+1.1	286.97	206.66	252.79	296.21	+1.2	3.15	295.17	285.09	205.80	251.15	292.30	298.56	218.82	253	
reland (15)	159.91	+1.7	153.69	110.68	135.38	150.01	+1.2	3.53	157.20	151.84	109.61	133.75	148.21	170.40	129.28	155	
taly (73)	71.87	+0.1	69.08	49.74	60.84	79.33	-0.4	2.42	71.78	89.33	50.05	61.07	79.51	72.82	53.78	70	
lapan (470)	148.24	+1.2	140.56	101.22	123.83	101.22	+0.4	0.82	144.55	139.61	100.78	123.00	100.78	146.85	100.75	102	
Malaysia (69),	337.60	+0.2	324.49	233.67	285.82	333.70	+0.3	2.03	336.77	325.27	234.79	288.52	332.81	343.04	251.68	236	
	1509.21	+0.4	1450.59	1044.62	1277.78	5143.33	+0.2			1452.19	1048.28	1279.22					
letherland (24)	166.36	+1,4	159.90	115.15	140.85	138.42	+0.9	4.00	184.14	158.54	114.45	139.66	137.21		1410.30	1620.	
Vew Zealand (13)	49.77	+1.5	47.84	34.45	42.14	48.26	+0.7	4.74	49.05	47.38	34.20	41.74		172.75	150.39	159.	
forway (22)	156.42	-0.1	150.35	108.27	132.44	145.98	-0.6		158.55	151.21			47.93	49.77	40.56	45.	
Singapore (38),	251.35	-0.2	241.59	173.98	212.80	187.00	-0.2	1.81	251.87	243.27	109.15	133.20	146.83	166.21	137.71	184.	
	199.85	-0.6	192.09	138.33	169.20						175.61	214,29	187.45	254.49	207.04	222	
South Africa (60)		+1.2	124.69	89.79		202,35	-0.7	2.48	201.01	194.14	140.14	171.01	203.85	201.01	144,72	248	
Spain (46)	129.72				109.83	122.16	+0.9	4.58	128.15	123.77	89.35	109.03	121.01	132.82	115.23	156.	
Sweden (36)	180.60	+0.9	173,58	125.00	152.91	194,83	+0.7	1.73	178.99	172.88	124.80	152.29	193.44	180.60	149.70	193.	
Switzerland (55)	124.48	+1.3	119.65	86.17	105,41	112,60	+0.4	1.93	122.92	118.72	85.71	104,59	11210	124.48	106.91	105.	
Jnited Kingdom (218)	177.83	+0.9	170.92	123.07	150.54	170.92	+0.4	4.03	176.25	170.23	122.88	149,94	170.23	181.98	162.00	195.	
JSA (519)	183.40	+0.2	176.28	126.95	155.28	183.40	+0.2	2.79	183.05	178.80	127.63	155.75	183.05	186.27	175.38	168.	
urope (785)	145.41	+1.0	139.76	100.65	123,12	132.99	+0.5	3.35	143.92	139.01	100.35	122,48	132,30	149.02	133.92	153.	
lordic (114)	168.96	+0.3	162.39	116.95	143,05	161.26	-0.1	1.55	168.53	162.78	117.51	143.39	161,40	169,92	142.13	181.	
acific Basin (713)	150.37	+1.2	144.53	104.08	127.31	107.85	+0.5	1.10	148.60	143,53	103.61	126.44	107.33	150.37	105.89	108	
uro-Pactric (1478)	148.22	+1.1	142.46	102.58	125,48	118,69	+0.5	2.00	146.57	141.57	102.18	124,70	118.10	148.94	117.26	128	
lorth America (628)	180.08	+0.2	173.07	124,65	152,48	178.99	+0.2	2.79	179,69	173.55	125,30	152.91	178.62	182.38	171.51	165	
urope Ex. UK (547)	125.41	+1.1	120.54	86,82	106.20	111.56	+0.6	2.88	124.01	119.78	86.48	105.54	110.89	128.65	112.51	128.	
acific Ex. Japan (243)	191.25	+1.3	183.82	132,40	161.94	174.75	+0.8	3.14	188.75	182.30	131.62	160.61	173.29	191.25	152,70	173	
Vorid Ex. US (1665)	148.95	+1.1	143.17	103.11	126.12	120.85	+0.5	2.03	147.36	142.33	102.75	125.38	120.27	149.39	118.51	129	
/orld Ex. UK (1966)	157.72	+0.7	151.60	109.18	133.55	137.03	+0.4	2.14	156.60	151.25	109.19	133.25	136.54	157.72			
forld Ex. So. At. (2124)	159.33	+0.7	153.14	110.29	134.91	139.65	+0.4	2.32	158.14	152.74	110.27	134.56			134.22	136.	
		+0.7	161.85	116.57	142.59			2.98					139.12	159.33	137.29	140.	
orld Ex. Japan (1714)	168.39	+0.3	101.00	110.57	142.07	161.78	+0.3	2.30	167.48	161,77	116.79	142.52	161.22	168.56	157.47	163.	
ne World Index (2184)	159.50	+0.7	153.31	110.40	135.05	140.17	+0.4	2.32	158,34	152,93	110.40	134.72	139.66	159.50	137.32	141.	

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#### A DUAL ECONOMY EMERGES

Russia's economic transformation is under way - and an unofficial, unmeasured and often anarchic private economy is appearing, leading to growing inequalities, reports Edward Balls - SEE PAGES 2 AND 3



#### PRIVATISATION OF INDUSTRY

In the big drive towards mass privatisation, more than 33,000 former state enterprises were auctioned-off last year to new owners. But the programme has run into sharp criticism. - SEE PAGES 4 AND 5

## Pressing ahead on the long road of reform

Amid continuing radical changes, many of Russia's business and political leaders fear takeover and expropriation by foreign interests and capital. But the stolid patience of the populace has remained extraordinary, reports John Lloyd from Moscow

OW one reads the progress of Russian reform in the past year is a matter of the half full or half empty glass.

For those who prefer to point out that the glass is half empty, there is a rich selection of horrors before which to shiver. Russia has not succeeded in laying democratic foundations: it has neither a constitution commensurate with the demands of a new state, nor strong political parties - and it has a bitter, unresolved tension between the

presidency and the parliament. The lack of a constitution and the weakness of the cantral government means that the republics and the regions within the federation are anarchically claiming and taking power. The political stasis has enforced economic timidity, as the cabinet - itself divided between conservatives, moderates and radicals - stands transfixed in front of the massive tasks of restructuring

which it must undertake. Foreign investment is negli-

gible and foreign confidence dropping because of a largely bad experience with joint ventures and with direct investment. As the world's two most populous states - China and India - move strongly towards more open economies and attract mobile capital, Russia stands as a lonely outpost of statism, immured in opaque struggles, unable to chart a consistent course, the despair of the coalition of rich capitalist states which is trying to help it, and with it the other former Soviet States.

It remains a nuclear arsenal, and has not yet ratified the Start II treaty nor begun a wide-scale demobilisation of its vast army. It has a host of tensions on its borders with the former Soviet republics - especially nuclear-armed Ukraine, which has not even signed Start 1 and is increasingly inclined to retain its warheads.

This is a bare selection: the nightmare can easily be ren-dered more lurid with the addition of ecological disasters waiting to happen, increasing



ne marked the ce milin leaders to appeal for unity in a new struggle against economic perils. (See page 5 for reports on privatisation developments in Volgograd)

impoverishment of vulnerable sections of the population and the rise of faseist - and neocommunist - sentiment. But it requires the balance of the half full perspective.

In this view, a blink-of-aneye 18 months have passed since reforming government started to construct a Russian state. In that time, the process of state-building has been almost entirely peaceful: not only has there been little viclence, there have been few demonstrations (and these ill attended in the main). A parliament functions, as does a

presidency, in public view: their arguments are fierce, but open - a rare experience for this country. The press is free, often raucously so. Organisations defending and furthering civil rights spring up constantly: the restrictions on domestic and foreign travel-lers, for citizens and non-citizens alike, have largely gone.

HE reforms instituted last year by a reform cabinet under Mr Yagor Gaidar have meant that money and price now matter again, and that property is beginning

to acquire a meaning. Managers are being constrained to think about making a profit and consumers are beginning to feel able to demand availability and quality. Neither now look only to the state to med them.

The privatisation campaign, which picked up speed in the second half of last year, has now seen half of the small businesses privatised. Mr Anatoly Chubais, the dep-

uty premier in charge of priva-tisation, predicts that all will be off the state books by the end of this year, together with 5,000 medium and large-sized companies. The vouchers issued to all Russian citizens, with which they can take part in privatisation through auctions, have at least given them a stake and given the government a pro-market constitu-

Finally, reform is still on the agenda. It is a rough road, but President Boris Yeltsin is still on it, and he still protects a cabinet struggling to further the market and to underpin Mr Yeltsin is a deeply ambig-

geous and backsliding, clear and muddled, uncompromising and hesitant. Yet his gut instinct for a more liberally inclined Russia has not des erted him and his shaky popularity remains higher than that of any contender, including populists like his vice presilent, General Alexander Rut-

The change in Russia remains obvious in foreign pol-icy - a change which predates the disintegration of the Soviet Union but which has stood the test of severe internal criticism from conservatives and nation-

LTHOUGH it has been unable to solve its long-running territorial dispute with Japan over the Kurile Islands, Russia has proved a strong supporter of the UN majority line in the for-mer Yugoslavia; it has generally retained sanctions on Iraq and Libya; and it no longer provides aid and succour to ristoric allies like Cuba. This does not make the inter-

national crises less critical there is an argument it has made them more so by removing the element of bi-polar stability - but it has given a greater scope for democratic development in countries frozen in cold-war attitudes and The key consideration is the

likely durability of peaceful reform. Mr Yeltsin pessed the end of last year and the beginning of this in increasingly impossible compromises with a parliament whose majority became more and more opposed to the president and government - and who were able to force Yegor Gaidar out of the leadership of the cabinet in December. Despite this, he insisted on the holding of a referendum a month ago and won

votes of confidence in himself and his reform programme. Since then, he has sought not wholly convincingly yet to capitalise on these results, by giving a boost to the privatisation programme, sacking some of the more conservative senior officials and getting agreement on a reform plan between the Central Bank and the government ready for the approval of the International Monetary Fund.

As this survey is written, the combat between him and his government and other allies on the one side and the parliament and its allies on the other is still in the wings: both have rallied round different versions of a constitution which, broadly, would seek to mould the country into a presidential

or a parliamentary system. Mr Yeltsin, with the backing of the security and defence ministries and with wider powers of patronage, has retained the upper hand: the parliament

Turn to page two

ON OTHER PAGES Foreign policy: western politi-cal and financial support remains vital, reports Andrew Gowers

Russia and the Commonwealth of Independent States: the struggle to unbundle the

Energy: the big slide in oil

Banking scene: Russia has over 1,600 banks in all shapes and sizes, reports Leyia

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Ambitions of Russia's new More delays in mining deals; problems exploiting vast natu-







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t Boris Yeltsin: still bettling down the rough road of reform -

## Pressures on Yeltsin for compromise on reforms

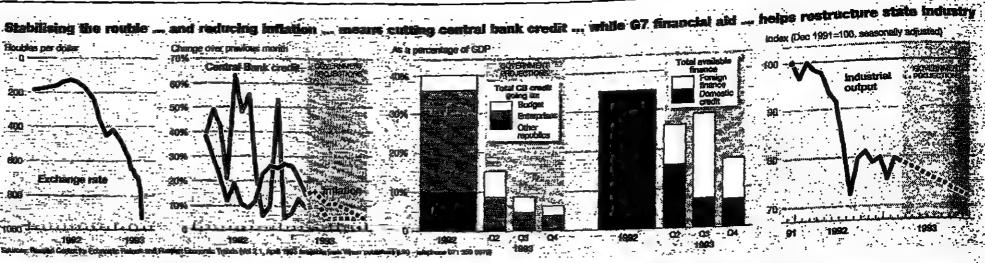
Continued from previous page:

is again pressing for a compromise, while Mr Yeltsin's allies fear that such a siren call may again enmesh the president in fruitless debate without an out-

These fears are real, and their resolution is presently the highest task facing Russia's leadership. Russia has not lost the reform road, and the stolid patience of its people has been extraordinary. But nor has Russia properly found the reform road: it is being surpassed by other states; and its hold over the attention and purse strings of the developed world must have limits.

Above all, it needs to construct normal, open and transparent relations with the world from which it attempted to cut itself off during the Commu-nist period. Many of its busi-ness and political leader fear takeover and expropriation by foreign interests and capital: these fears need to be both calmed and faced, and the nature of international capital and division of labour grasped and internalised to suit Russian conditions.

It has the advantage not just of a patient but of an educated and often cultured people: a mineral-rich earth; an industrial culture; and, presently, international goodwill. It could squander these before as it has squandered them in the past: but for the first time in Russian and Soviet history, the people appear strong enough not to allow it to happen.



Inequalities emerge and risks are high as the private sector economy develops, reports Edward Balls

## **Economic transformation is under way**

fusion and acrimony which continually dog the government's halting reforms. Russia's economic transformation is under way. Accelerating economic and social change is readily apparent in the bustling street markets and newly fitted office blocks, both in Moscow and regional urban centres. But signs of this emerging private sector economy have yet to be reflected in the government's state-sector dominated eco-

Indeed, a casual giance at the official economic record would suggest that the Russian economy has stood still or even moved backwards over the oast year:

 Measured industrial output fell by 18.6 per cent last year and may still be falling; • Inflation continues to fluctuate between 20 and 30 per cent a month as the government and central bank pump out credits to loss-making state enterprises at very low interest

• There are few signs of the unemployment and bankruptcies which many observers believe will be needed if industry is to be restructured: The domestic oil price is still less than a third of world prices, while other energy prices are even lower, and

 Measured living standards per head fell by a half in 1992 compared to the previous year. with the hardest hit being pensioners and other people who depend on state incomes. Since 1985, the average pension has fallen by a quarter relative to the average wage. But the statistics omit an

important element of the Russian economic story: the growth of an unofficial, unmeasured, often anarchic, but increasingly significant private economy, which appears to be liberating a vibrant, entrepreneurial streak in a growing number of Russian citizens.

This new activity is not restricted to the capital city alone, although Moscow is, not surprisingly, ahead of the rest of the country. Street markets, private banks, unofficial taxi services, new restaurants and stores selling imported goods are springing-up across the

The growth of this private economy has been encouraged by the liberalisation of most state-controlled prices last year, the privatisation of over 33,000 small-scale state enterprises in 1992; the govern-ment's nascent medium and large-scale privatisation programme; the removal of many state regulations on private activity; the withering away of the state's ability to enforce those regulations which remain; and the seizure and exploitation of state assets and resources by managers, work-

ers and local bureaucrats. Russia is, as a result, develoning a dual economy: a state industrial sector, biased towards military production. weakened by the collapse of trade between Russia and the other republics, dependent on government subsidies for its survival, but responsible for social infrastructure and the employment of the mass of the population; and an unofficial, sometimes illegal, private econ-omy in which most agents are engaged in trade and the provision of services, rather than production, and in which much of the economy's \$35-40hn annual export earnings circu-

The activities of the state sector dominate the official production statistics and the state budget. Experts at international financial institutions estimate that the government distributed explicit budget subsidies equivalent to a little over 20 per cent of gross domestic product last year, mainly to state enterprises. But the same amount again

through off-budget credits from the central bank and the ministry of finance, channelled through the state banking system at very low interest rates. But it is the new private sector, emerging from the black

economy of the former Soviet union and reminiscent of the wild capitalism of nineteenth century America, which seems to be the main dynamic force that generates and distributes wealth throughout the economy. This unofficial economy is serviced by the mushroom-ing, unregulated private banking system, whose growing wealth and power is illustrated by the large number of adver-tisements for Russian banks, paid for in dollars, which appear in this survey.

The activities of inkombank, a new Moscow-based private

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bank, are typical of this new private sector. Inkombank has assets equivalent to 212bn roubles, of which 70 per cent are held as hard currency. The bulk of its activity consists of finance of commodity exports through its network of correspondent banks abroad, explains Alexey Kuznetsov, the bank's smart, young first deputy chairman - "we finance exports of fertilisers, copper, aluminium, arms, lumber and construction materials and

refined oil," he says. This private, un-regulated economy has space for many smaller fish. Some are official privatised companies, a sample of which appear later in this survey. Others are individuals who do extra work in addition to, or instead of, official jobs. Viadim, a 28 year-old Moscov-its, fluent in English and Italian, earns 18,000 roubles (\$19) a month from teaching. But he supplements these meagre earnings from taxi driving, at which he can earn \$20 a day and pays \$80 a month to the local "maffa", who control taxi access at the Olympic Pents

The growth of this unofficial economy partly explains how the government has been able to maintain support for reform, despite rampant inflation and falling real wages - "people do not care too much about their wages," ways one senior westarn official based in Moscow. Much of the important economic activity now occurs outside the wage economy."
But this dollar-based econ-

income and living standards between those with the power and influence to take, and flaunt, their share of this new wealth and those who remain dependent on the state sector for their livelihood. It has also meant growing public resent-ment of the associated corrup-

tion and illegality. Pensioners are not primarily concerned with how badly off they are, or how hungry," says social affairs minister Ella Pamfilova, "Price increases are only their second priority, Their biggest concern is crime and corruption."

The government's problem has been to manage the political reaction to this growing inequality and lawlessness. while keeping the reforms on track. Over the past year, it appears to have managed the former at the expense of the latter. Support for reform remains surprisingly strong, boosted perhaps by the populist mass privatisation programme. But that is partly because the government, or at least the relevant ministers in the increasingly divided cablnet of ministers, have failed to take the tough decisions needed to bring inflation under control.

The reformers have tried to pin the blame for inflation on Mr Viktor Gerashchenko, the central bank governor, who has been portrayed as an enemy within, recklessly flooding the economy with inflation-

Continued on facing page

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make consumer and firm in the rational market hittle stands among the leading three

hased on the 5 presignal policies:

2) the pulley of concensuisce in Asset states let dat Cathemates, Acquaillans and correspondent basins hty of their money as well as youd and stable action on it policy of protectic mices, hours and combine

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steady progress for the Bank. Since the informational actioness and payments were determined to be the key priority, MBB ton established a special operational department with a beam of professionals who execute all types of international payment become a full SWIFT-user and produces econ of daily SWRFT messages traffic. Since 22nd February 1993 the Bank loss basic appointed a co-ordinator for CIS banks-SWRFT

of international activity has created the the treatplants or regulations many man forms the solve the problem by organizing a Treasury group, equipped by Theuler 2000" as well as by the up-dated arternational syste While operating in externational Foreign Exchange and Mone Markets MBE is concentrated on ex ang products which make available the recessary high-k and the same distant.

MBE is an active FX trader in the Romans regional Australian well, and is considered to be an autiso "money maker" with dang shares from 5 to 8 % of the social PCY Rootile trading

The craff policy of 1888 is considerably captions, but open is prospective projects. The credit portfolio of the Bank (both in Pitch and in PCY) comprises loars to various fields of econ (Agist, lardie, wood-processing, chemical, engineering, into leade, hardige scottered actively). The basic approach while granting credits in the diskution of such individual project from the point of sufficient constant), and from the point of the partpocing of the peoject to governie good return on the

mage both in the national and recommism markets to great extent can be attributed to 48 corre network of our correspondent banks of Russia and SIC with their FCY and Rbf accounts. Our Vostro' correspondent network, together with the network of our branches, its ion of settlements that our Bank executes on behalf of its customers and co bartes both in the Rol and in PCY. The tunctions of a leading clearing centre in Aussia have become the le 8, to which the Bank gives taghest priority. Since the middle of fact year well-known international banks have chosen MGB to open their PCY accounts, and take advantage of our national and CLS correspondent network to accelerate pe

HHY

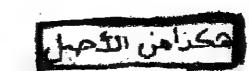
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For the last 2 years the Bank has made o progress in improving as own technology. The Bank has set up as own computer network which provides the daily regire of the consolidated balance sheet. At present the Bank is in the proof installation of a could fex shapes of enganginos paged ou s bowerung "Leudeus, gangware and "Villas", kolgwers, broches of "Internet" This year the Bank has begun to distribute VISA-MOSEJUSINESSRANK credit cards

The accounts of MBB for 1992 have been Debitic and Touche' who contained the full adequacy of the Gank's state of affairs with the present banking legi

All the above evidently shows that MRB gots itself ready to become a reliable long-term partner for those who are aiming to



148.8 million (mid-1992)



aman in Moscow struggles home through anowy streets with cartons of milk. Living standards fell by half last year, severely hurting pensioners depending on state inc

#### Continued from facing page

ard Balls

ary credit. His stubborn insistence on supplying credits to other former Soviet republics, to the tune of 10 per cent of Russian GDP in 1992, has certainly made controlling inflation very difficult. Many reformers argue that Mr Boris Fyodorov, the finance minister, should take over the central bank governor's job.

But the responsibility for high and rising inflation belongs as much to the government. For cutting state subsidies to state enterprises, however necessary and desirable, means bankruptcies, unemployment and the risk of social discontent.

Unemployment benefits are minimal, less than a fifth of the average wage, while many social benefits are still provided by enterprises. In these circumstances, neither the government nor the central bank have been prepared to ignore parliamentary opposition and start to cut state subsidies.

"The central bank should be responsible for monetary policy while the bankruptcies of state enterprises are a matter for the government," says Mr Alexander Khandruyev, a deputy governor at the central

"But if we simply stop credit emissions, then our governcomorrow.

The result has been rapid inflation. Total credit grew, as a result, by 3,140 per cent over the course of last year while prices rese by 2,500 per cent. The government had some success in raising tax revenue, particularly from the valueaddded tax which now accounts for a third of revenue collected. But on- and off-budget credits accounted for 40 per cent of GDP last year.

If anything, the government has moved further away from controlling its budget deficit in recent months.

Recent monetary data had been relatively encouraging, with the monthly inflation rate falling to 21 per cent in March and the growth of central bank credit dropping into single figures. But a rise in government spending and bank credits in the weeks preceding the referendum are expected to push inflation back towards 30 per cent over the next few months.

Mr Sergle Vassiliev, director of the government's Centre for Economic Reform, confirms that government demands for credits from the central bank increased in the weeks before the referendum - "thirty per cent monthly inflation reflects the government's insbility to control its expenditures," says

The central bank and gov-



ith - for some - also brings problems of stark inequal exchanges dollars for roubles at a mobile bank in a Moscow street. The city's private economy is vibrant.

reduction in the volume of state subsidies

ernment had agreed in early

the second quarter should be

limited to 3,000bn roubles, of

which 1,300bn roubles would

go to the government's budget.

But the consequence of pre-ref-erendum pledges to raise the

paltry level of pensions and the

minimum wage, and increase

in subsidies to the agricultural

and energy sectors, mean that the government deficit is

The government's failure to

curb inflation is therefore a

direct result of its desire to

avoid the barsh distributional

consequences of imposing

tough budget contraints on the

state enterprises, many of

which would be bankrupt. But

the resulting inflation is prov-

reform and inegalitarian, for

First, the inflationary credits

are not tied to industrial

restructuring and thus allow

the state enterprises to avoid

commercial realities. So long

as state enterprises continue to

receive credits at negative real

interest rates, they face no

incentive or necessity to

ern financial institutions, nei-

ther macroeconomic stabilisa-

According to various west-

ing to be both an obstacle

roubles.

two reasons

tion

dy expected to be 2,300hn

Second, high and unstable inflation is one reason why the flow of investment into Russia has so far been negligible. No sensible investor wants to hold rouble nameta

The result is an artificially low exchange rate, falling towards 1,000 roubles per dollar, which leaves the average wage equal to a mere \$30 a month and makes imported goods too expensive for most

The reformers are relying on

High and unstable inflation is one reason why investment flows into Russia have so far been negligible -

vestern aid to square the circle by substituting western budget support for inflationary central onok credita.

The government's financial programme envisages that total available credit will fall from 40 per cent in 1992 to 17 per cent of GDP by the final quarter of this year. But total omestic credit falls to 7.2 per cent of GDP, consistent with a monthly inflation rate of 5 per cent, while western aid fills the

nor enterprises Western officials appear restructuring can proceed

cials from the Group of Seven industrialised countries say they are determined not to see a repeat of last year, when much of the original \$24bn aid package was not disbursed because the Russian governent was unable to meet the IMF's tough financial conditions. At their meeting in Tokyo four weeks ago, the G7 foreign and finance ministers appounced a headline figure of nearly \$44bn of assistance to

in bilateral aid. Senior officials at the group of seven industrialised countries envisage that budget support could become available over the next few weeks following recent negotiations between the reformers and the

Russia over the next year from

the IMF, the World Bank and

International Monetary Fund. The IMF is now offering each former Soviet republic fast disbursing aid - labelled a 'svatemic transformation facility half of which would be paid ment demonstrating a 'credible' reform strategy. For Russia this facility will provide

G7 officials list four key conditions which should be met before funds can be released: Strict limits on central bank credit creation:

 Significant reductions in all state subsidies: A viable budget programme that is consistent with low

A rise in interest rates:

By helping the government o manage its distributional

dilemma, the western hopes to help the reformers fight off the start the difficult process of restructuring and slimming the military sector, while the nascent private economy continues to grow. The challenge for the west is to ensure that aid does substitute for central bank credits, rather than merely adding to their sum and is closely tied to industria restructuring.

That, according to World Bank officials, means ensuring that general subsidies are cut so that the social safety net supports the unemployed rather than loss-making enterprises, while remaining subsidies to large military enterprises are time-limited and linked to specific transforma-

tion plans. The G7 strategy is risky. Senior officials at both the World Bank and the IMF fear that, however committed the reformers in Moscow, their inability to control inflation market infrastructure mean the western money will be wasted. They are worried that the reputations of both the World Bank and the IMF will be damaged in the process

Certainly, if sid is to materialise and reforms are to progress, the Russian government will have to be considerably more bold, and willing to take greater political risks than it has been in recent weeks dur-ing which President Boris Yeltsin's economic appointments

President Boris Yeltsin Head of state Head of government Exchange rate (May 20, 1993) ....... \$1=Rbs940 (see chart, P.2) ECONOMIC INDICATORS Total GDP (Rbs bill Real GDP growth (%)... -19.0 3.220 -18.6 -19.7 Oil production (% change p.a.)... -14.9n/a 11,174 Number of firms privatised 46.815 Unemployment (mean period 0.7921.01 55.6 46.0 1991=100). Currency in circn.(monthly rcentage change) 23.4 14.1 Broad money growth (monthly 19.9 14.0 percentage change): Consumer prices (monthly 18.6 24.6 percentage change)1. Average wage rates (monthly Budget deficit\* (% of GDP). 8.0 Gross external debt, (\$bn, 87.0 Current account balance (\$bn)... imports (\$bn). 35.0 n/a Trade balance (\$bn): 3.1 Direction of trade (percentage of total 1992). Ex-Comecon countries 19.7 - Other socialist countries 8.7 Developed capitalist 60.1 64.0

**Population** 

Notes:"World Bank estimate, 1991; where noted latest figures are (1) Jan-Mar average; (2) Jan-Feb average; (3) budgeted for 1993. Source: Economist Intelligence Unit. Russian Economic Trends (Whurt Publishers), Vneshekonombank, FT Statistics Dept.

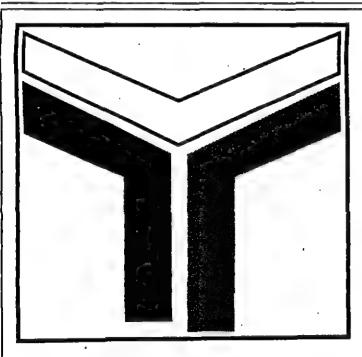


Russia's economy presents many gambles: here a hopeful

less than fully committed to economy through government reform. But if it works, westchannels, the west hopes to ern aid might, in the words of one senior western official, "grease the wheels" of Russia's economic transformation by "buving time for the invisible hand to do the work. By injecting dollars into the

enable the reformers to control inflation and mitigate the growing inequality that the developing private sector econ-

omy is bringing. The risks are high - that is the nature of the G7's gamble.



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r-region auction centre when a million shares in the ZIL car ry went on sale this year. The sign behind says: "Privatisation." Below, a Muscovite cashier at a local district bank prepares stacks rs for distribution. The Rbs 10,000 vouchers allow purchasers



HE RUSSIAN radicals' reform rhetoric sits uneasily alongside the rather messy and unsatisfactory reality, with one notable exception: the government's mass privatisation programme. If an economic revolution

has truly begun in the former Soviet Union, which many doubt, the driving forces propelling it forward are the mass auctions of small-scale state enterprises, and, more recently, the sale of shares in medium and large-scale enterprises to their managers, workers and the general public.

"Privatisation itself is the creation of a Russian bourgeoisie," sald Mr Anatoli Chubais, the deputy prime minister with responsibility for the privatisation programme in a recent interview. With more than 33,000 small-scale former state enterprises auctioned off to new owners last year, about half the total employing fewer than one hundred employees the creation of a new class of Russian shop-keepers is under

Officials at the headquarters of GKI (GosKomlmushchestvo) - the state property committee managing the privatisation programme - say sales this year suggest that the momentum behind the small-scale auctions may be slowing. The been sold, while the continuing confusion over the privatisa-tion of land and real estate are making life difficult for new

Maxim Boiko, a senior adviser to Mr Chubais, points to the proliferation of street kiosks selling imported goods on the streets of Moscow and many other large cities as evidence of the appetite for private enterprise and obstacles to future progress. "The kiosks are a good thing," he says. But they also indicate that the real estate market is not working.

But while the small-scale effort has wearled, the privatisation baton has been handed on Last summer, the government announced it would auction medium and large-scale state enterprises by issuing vouchers to the general public by the end of the year.

In December, when voucher auctions for medium and largescale companies began with the sale of Moscow's Bolshevik



an officers retraining as tax officers as the country moves towards a market economy Picture: Viktor Korotaye

Edward Balls on the emergence of a new class of shopkeepers

## The voucher-led revolution

were sold. In April, 558 enterprises in 54 regions were up for tender. The reformers' target of 5,000 sales by the end of the year is beginning to look real-

In total, 1.547 of the 28,000 companies which employ more than 200 workers or have assets valued over Rhs1m, had been sold by the end of April. Of these, 372 enterprises employ more than 1,000 employees and account for 96 per cent of total employment in privatised enterprises.

Most privatised enterprises are largely owned by the work-ers and managers, who generally choose to exercise their right to purchase 51 per cent of the available shares. A further 30 per cent of equity is sold to the general public using voucher auctions while the state generally retains a minor-

Russians in most regions have been issued with rouble privatisation "vouchers", which have a nominal face value of Rbs10,000 - a sum that can be topped up with cash. The vouchers can be sold for cash, used to purchase shares in their place of work, placed as a bid for a limited quantity

ing the two weeks they are up for sale at auction houses in large cities, or "invested" in one of the emerging investment trusts which hold individual company shares on behalf of their investors.

Not surprisingly, privatisation has run into opposition from federal bureaucrats and parliamentarians who have most to lose from the sale of state assets. Prime minister Victor Chenomyrdin has been especially sharp in his criticism of the programme. Rumours that Mr Chubais is about to be sacked constantly circulate in Moscow and the

N the regions, however, governments - and to a less extent local parliaments are increasingly supporting the Chubais programme, with 71 regions, out of about 90, organising auctions this month.

in Volgograd, 600 miles south of Moscow, Mr Konstantin Ogloblin is the director of the state property fund that sells property on behalf of the local GKI. He was appointed by, and answers to, the local oblast parliament but is unequivocal in his support for oucher privatisation.

is opposition from the federal property fund, appointed by ory to sell federal property on behalf of the GKL but in practice is an attempt to slow the privatisation process.

We agree much more with the central GKI than the central property fund," Mr Ogloblin says, explaining that if the federal fund does not act fast enough to sell off the enterprises then the GKI has the power to take control over hem. Despite federal opposition, the Volgograd fund has managed to sell off a number of large factories, including the giant Volgograd tractor factory with 26,000 employees. "We advertised the sale of the tractor factory in the central fund bulletin," laughs Mr Ogloblin.

Yet the mass voucher privatisation programme does not receive universal support from reformers. Critics, including the reform economist Grigory Yavlinsky, doubt that privatisation will produce either new investment or restructuring. particularly if worker-shareholders prevent managers from laying off surplus workers.

Sergey Alexashenko, director of the Russian union of industrialists and entrepreneurs and a reform sympathiser, agrees: "In my opinion the govern-ment has not chosen the right way," he says. "The main aim should not be rapid privatisation but effective privatisation.

We need effective owners who exercise control over their enterprises. Voucher privatisation is a mistake because it is completely ineffective."

At the heart of the debate is the uncertainty about the nature of the property rights that have notionally been transfered from the state to shareholders. In theory, the management has the right to sack workers, shareholders have the right to sack management, and new domestic investors, perhaps with foreign partners, can take control by buying out existing sharehold-

N practice, the managers remain firmly in control of the newly privatised enterprises - no factory directors have lost their jobs. Anecdotal reports suggest that lay-offs occur but only rarely. And while foreign investment banks are believed to be buying up parcels of shares in enterprises, they have not yet attempted to exercise the property rights these shares theo-

retically represent. "Privatisation is a step in the direction of private firms." says one senior World Bank

official in Moscow. "But even in five years these "privatised" enterprises are not going to look like western companies." Officials at GKI accept that the next few years will produce new problems as these newly acquired property rights become better understood. traded and tested. But they

argue that such criticisms miss

the point. In its early stages, the aims of the mass privatisation programme are primarily political: to undermine the power of federal bureaucrats while building a mass constituency of shareholders who have a stake in the continuation of reform. "In a limited number of cases, privatisation is allowing people who have ideas about restructuring to get on with it," says Jonathan Hay, a western adviser based at the GKI in Moscow. "But the separation of the state and industry is the only realistic thing that privatisation can achieve in the

The reformers point to the support for economic reforms in President Boris Yeltsin's recent referendum, and the opposition of federal bureaucrats, as evidence that this strategy is working - "privalisation is about taking away the assets that federal bureaucrats used to control," says Maxim Boiko. "No wonder they are

not co-operative." Anecdotal evidence suggests that, with a typical mixture of enthusiasm and cynicism, the Russian population is prepared to give this new capitalist 'game" a go, although the fact that the market value of privatisation vouchers hovers around half their face value suggests they are prepared for

disappointment. Interrupted while filling out an application form in the Volgograd auction house and asked why she was buying shares, 20-year-old Lena Bruz gunova reacted sharply: "What would you do if you were given

a voucher?" she asks. And what can she expect in

return for it? "The voucher is too little," she replies. "But maybe the shares will pay some interestsome day. Privatisation may stop in a few months, but it may be the basis of our future. We don't know what the future

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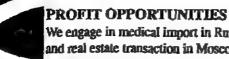
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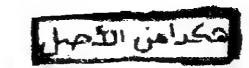
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# Mass privatisation in practice

HE RUSSIAN city of Vol-gograd, 600 miles south of Moscow, is at the forefront of the government's privatisation drive. Close co-operation between the regional branch of the privatisation ministry and the local parliament controlled state property fund, with advice from the International Finance Corporation - the private sector investment arm of the World Bank - have enabled

the region to privatise 336 small-scale state enterprises. Since mass voucher privatisation began in Volgograd in the beginning of February. 50 medium and large-scale enterprises have been sold, ranging in size from a few hundred to 26,000 employees. But although all of them claim to be moving towards market reforms, "privatisation" often means very different things to So what does privatisation

Russia's new entrepreneurs. really amount to for managers, workers and shareholders in a selection of newly privatised enterprises in the city of Volgograd and the surrounding countryside?

The dress-maker - a new-style entrepreneur

ACK in the days of Soviet state planning, Mrs Lilia Tataleyeva's Volgograd dress shop used to sell two designs of Russian raincoat - one for summer, and one for winter. Today the newly privatised shop is undergoing a fashion revolution.

As in many privatisation success stories, the main factor in the turnabout has been the entrepreneurial energy of one

A forceful woman who dresses with elegance, Mrs Tataleyeva spent five years working as the frustrated director of the state-owned shop under the control of the local ministry - "before, we had to send all our designs to the state sewing factory. By the time they were ready, fash-ion had changed," she says. Eighteen months ago, Mrs

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on yougher at a local bank in bloacow. The wouchers, each worth 10,000 roubles, are given to all Russian citizens as part of the econor

Tataleyeva along with 17 col-leagues launched a bid for the enterprise. The collective beat three other bids with an offer of 2.5m roubles, subsequently reduced to 1.7m roubles in accordance with state regulations which favours bids from worker collectives by offering a 30 per cent discount.

Now that seems a very low price. But then it was a very high price," says Mrs Tataleyeva, who has succeeded in paying off 1m roubles of the credit they took at 60 per cent annual

With the new dress shop making a monthly turnover of about 800,000 roubles, she is confident she will soon pay off the rest of the loan, although the galloping inflation that has reduced the value of the loan is also making a mockery of her attempts at financial planning.

But Mrs Tataleyeva revels in her new responsibilities: "We are currently making a summer collection and these days I cannot blame anyone else because it is up to me if it fails," she says, adding cheerfully. "Most people do not understand about privatisation. The others who work here get their monthly wages and do not worry. But I do this all for myself. It is all me."

The wholesaler -building a retail empire

HEY call her "the from lady of Volgograd." With blue-rissed. bair, care: fully applied make-up and the compulsory fax machine on her desk, Mrs Tamara Sitnikova, the 47-year-old executive director of the "Boots and of the modern Russian executive women, of which there are

of the first Russian managers to be head-hunted. Previously the manager of a state wholesale distributor, she was invited by the five other shareholders to become a shareholder and manager of "Boots and Shoes", previously a state boots shop, when it was priva-

their last summer. Her experience in the state system means that "Boots and Shoes" is tackling one of small-scale privatisation's biggest deficiencies - the lack of a reliable and competitive wholesale network. Mrs Sitnikova has tried to fill this the gap by buying two lorries which she can use to distribute goods to compenies which cannot themselves buy store goods in bulk. In time, she hopes to create a new and higger company by taking over some of the small shops she supplies.
The store has retained all its

original 23 staff, two thirds of whom are contract workers, but it has been forced to diversify away from footwear as demand dwindled and now also sells food, cakes and popcorn. Freedom from direct bureaucratic control has advantages but also new problems. "Taxes, taxes, taxes" are Mrs Sitnikova biggest worry. She complains that 80 per cent of the store's profits go to pay eighteen different types of

Mrs Sitnikova openly admits that she models herself on Mrs Margaret Thatcher, the former British prime minister. "People tell me that we are pretty much alike both in character and in our leadership styles," she says with a smile. Her speech also has a Thatcherite tings. "The key to privatisa-tion is ownership," she says. "If you own a shop or have shares in a company, you feel you really are somebody."

Does she have any other personal ambitions? "There are not many women who are number one in Russia," she replies. "But my view is that only a woman can save our country. Maybe we do need a woman as president too."

sweet factory

a country where factory directors have long been used to diligently fulfilling state orders and plans - or at least, to make a show of doing so - it is rare to find directors in Volgograd who are prepared to speak out openly against the government's privatisation plans. But at the newly priva-tised Lenin Volgograd Sweet factory, the directors are less than enthusiastic about priva-

"All this privatisation is a bit like a new state plan - a new five-year plan," says Mr Valen-

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Mrs Tamara Sitrikove: "the iron Mrs Lilla Tataloyeva: a keen eye ledy of Volgograd\*

tin Makhonin, the managing director, who admits that faced the enterprise, which produces 190,000 washing machines a with a choice between market year and employs 700 workers, anarchy and state-planning stability he favours the latter. The motive behind the Lenin and directors. But Mr Tyulpin is confident be will retain con-

sweet factory's move to the Mass privatisation may be market was not an ideological laying the foundations for the conviction or a new-found market, but instead a weary obedieventual emergence of a thrivence to this new state direcing western-style stock market tive. Under instructions from which would allow badly manlocal government officials, the aged companies to be taken directors transformed the over, but, for now, it is consolenterprise into a shareholding idating the power of incomcompany and "sold" 51 per cent of the shares to the work-

Red Dawn will be run by a nanagement committee of the director and three others, but Mr Tyulpin says he will have

Deciding what to make and how many people to employ

will be the management's perogative.
"Of course people would like to stay working here," he says, "but it will be up to the man

agement of the factory to decide who to fire." Mr Tyulpin plans to expand production by making metalcutting machine tools and expects to shed 150 workers. Surprisingly, the shop-floor workers at Red Dawn appear to accept the management's right to manage.

Traders on the floor of the Moscow commodities and futures exchange shout bids for private

tures. Youchers can be used to purchase stock in privatised industries

"People are expecting layoffs," says Uri, a 30-year-old engineer. "But the first people to be fired will be the drunks, the ill-disciplined and the lazy-

The farmers - once bitten, twice shy

HILE government officials in the city of Volgograd are trumpeting the merits of the revolutionary new privatisation programme, out in the rural village of Gorodizhe, 30km outside the city, the propaganda is being greeted with a distinct sense of de ja vu.

Eighteen months ago, the village's state farm set itself up as a shareholding company an experiment which ended after only a year, when the villagers decided they were fed up with the new "share" system.

The reason for the villagers' disillusionment lie partly in local politics and partly in the problems of delivering on the exuberant promises being made for the new market sys-

The man who was behind the farm's original decision to turn itself into a shareholding company was its energetic, entrepreneurial director, the 52-year-old Mr Anatoly Chibat-

Believing that privatisation would allow the farm greater freedom in economic decision making, 18 months ago he decided to set the 7000 hectare farm up as a shareholding com-

Shares were distributed and sold to all form workers, promises were made about future dividends and profits, and Mr Chibatkov set about trying to make the farm profitable.

But after a year the farm workers had received few dividends, and production continued to fell.

Reaping the popular discontent, Mr Chibatkov's rival political faction in the village pushed him out of office, bought back all the shares, and turned the farm back into a 'collective" again.

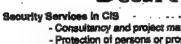
They gave us all these bits of paper and they were worthi," said Antonina, a 71-yearold pensioner, echoing a widespread cynicism over the affair, although most villagers still say they will use their recently received privatisation



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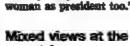
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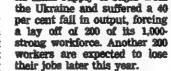
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surprisingly large number. Mrs Sitnikova must be one





Enthusiasm at the

So far, Mr Makhonin claims

the exercise has had only a

limited impact on the way the

factory is run. "The factory works as before. We sell the

sweets to the same places, and

the way we make sweets."

receive the orders from the same places - nothing has really changed very much in

But the plant has been hard

hit by the breakdown in inter-

its main supply of sugar from

R Anatoly Tyulpin managing director or Volgograd's "Red Volgograd's "Red washing machine factory, can hardly wait for his ty-one per cent of the shares in

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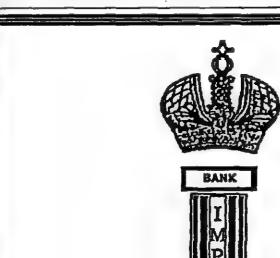
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Soldiers of the Kremlin Honour Guard march from the Lenin Mausoleum in the Red Square. In March this year, the Kremlin regiment was transformed



Russian President Boris Yeltsin, left, waves as he welks with US President Bill Clinton to the Sunday morning sea couver, British Columbia, earlier this year. The Clinton administration announced \$1.6bn in aid to Russia

FOREIGN POLICY: courting western political and financial support remains paramount, reports Andrew Gowers

## Hardliners retain formidable blocking power

coming apart. If their ears had not deceived them, Mr Andrei Kozyrev, Rusble taste but one not without resonance. Indeed, the brief sia's foreign minister and a alarm Mr Kozyrev managed to man known for his outspokenly pro-western views, had generate in Stockholm was elojust told a gathering of the quent testimony to the uncer-Conference on Security and Co-operation in Europe that tainties that continue to shroud Russia's bold attempt his country's post-communist to align itself with the west policies of working with the and join the club of great capiwest were at an end; that its talist democracies. interests elsewhere set limits The broad lines of this stratto its rapprochement with egy are not in doubt, and as

OR 45 minutes last
December, government
ministers from north

America and all over Europe

found themselves half-wonder-

ing whether their world was

western Europe; and that Nato

demanded an end to sanctions

against Russia's ally Serbia to

Fortunately it was no more

than an appearance. After hec-tic consultations, Mr Kozyrev

coolly took the podium again, saying his earlier speech had

cal warning to the west of

nationalist opponents.

en a pack of lies - a rhetori-

was courting confrontation by Due to hardline interfering in the affairs of the opposition, several former Soviet bloc. important international He had, in other words, just appeared to junk the whole treaties are still awaiting strategy that had made the end ratification of the cold war possible - and

the foreign minister said they will not be so as long as President Yeltsin survives. On the contrary: as his political travails at home have grown in recent months, he has come to rely all the more - like Mikhail Gorbachev before him - on foreign policy successes.

what would happen to Russian Courting western political foreign policy if President and financial support, of Boris Yeltsin were swept from course, remains paramount, as power by his conservative and symbolised in the Yeltsin-Clinton summit in Vancouver, in For western governments, it the Russian leader's prospecJuly, and in his desire to sign a free trade deal with the European Community as soon as this summer.

But other important relationshins have also been receiving increased presidential attention in the past year - those with China (often cited as an economic model for Russia by those who oppose Mr Yeltsin's reforms), South Korea (a significant potential investor and rival to Japan) and India. In the Middle East, ties have been repaired with Iran and with Syria.

If it once seemed as if Russia's domestic woes were causing it to turn in on itself, the retreat from the world is now over. There may not yet be an over-arching vision of Russia's international role - no easy matter for a country straddling two continents, a third of the earth's land surface and a patchwork quilt of ethnicities and religions. But that it wants to be a player is not in doubt. In recent months, however,

Mr Yeltsin has not been immune from attack on the foreign policy front. And as a result, the government has been forced to trim its sails on

Seven summit in Tokyo in some issues and to set out a of the votes in parliament, and position that is more distincacquiescent with the west, on others. As Mr Sergei Karaga-nov, head of Moscow's Institute of Europe and a foreign policy adviser to Mr Yeltsin, puts it: "We are paying the price of saying 'yes' even before we were asked. Now we have to fight for our interests - and some of them will be

> For the opposition in parlia-ment, Mr Yeltsin's pro-western posture is a useful stick with which to beat him in their domestic power struggle: it accuses him of kow-towing and failing to defend Russia's vital interests, and has been demanding Mr Kozyrev's dismissal for the best part of a

different from those of the

Hardline nationalists and communists go further, advocating the reconstitution of the former Soviet Union or aggressive measures to protect the 25m ethnic Russians living outside Russia's borders, the pursuit of arms sales to renegade states in the Middle East such as Iraq and Libya, and support for fellow Slavs in Serbia against international pressure.

More than political slogans are at stake in this latter-day version of the age-old Russian battle between slavophiles and westernisers. The hardliners can command up to 40 per cent

although they do not thus far appear to have had much impact on Mr Kozyrev's day-to-day diplomacy, they do have formidable blocking powers when combined with the third or so of centrist deputies who tend to side with them on

foreign policy questions.

The result is that several important international trea-

In recent months, President Yeltsin has not been immune from attack on the foreign policy front

tles are still awaiting ratification, including the Start 2 US-Russian strategic arms limitation agreement which parliament says it has no intention of ratifying until it receives Mr Kozyrev's scalp.

Senior foreign ministry officials do not attempt to disguise their frustration with such parliamentary antics. "We can't talk to these peo-

ple," says Mr Sergel Yastrzhemsky, Mr Kozyrev's spokesman, of the government's "red-brown" opponents. "They don't know any words of argument, only tired old ideological cliches."

As one example of the trouble they can cause, he cites a treaty between Russia and Hungary which deputies have contains an apologetic reference to the 1956 Soviet inva-

Whether these disputes have a much broader political effect hard to say. Even Russian foreign policy pundits agree that most of the populace are far more pre-occupied with the struggle for daily survival than with esoteric questions concerning their country's role in

But such issues can on occa-sion take on symbolic significance in a country many of whose citizens still feel confused and humiliated by defeat in the cold war and by the loss of empire. The dispute with Japan over the Kurile islands. which the Soviet Union occupied at the end of World War Two and which Tokyo badly wants back, is one example.

Repeated attempts to arrange a Japanese visit by Mr Yeltsin over the past year have foundered, at least in part because the Russian president has felt it politically impossible to offer sufficient concessions. The issue will inevitably continue to bedevil Russian-Japanese relations, and limit Japan's willingness to provide Moscow with aid outside the multilateral framework of the

G7, for the foresesable future. The conflict in the former Yugoslavia, where Russia has been broadly supportive of western-led mediation efforts, has lately become another Under fierce attack in April for not showing sufficient solidarity with the Serbs, the government sent its own peace envoy to Belgrade and felt obliged to

The alternative policy prescriptions of Mr Yeltsin's swom enemics do not stand up to serious inspection

distance itself from western policy by abstaining in a UN Security Council vote on tightening sanctions.

It was not until after his referendum victory on April 25 that President Yeltsin felt bold enough fully to rejoin the international consensus and issue an unequivocal ultimatum to Serbia.

Mr Karaganov of the Institute of Europe says the west has no reason for concern at such manoeuvrings - "almost nobody is interested in Serbia here, but the opposition just plays it up to make things difficult for the administration, and the administration has to bow to that," he says. "It could just as easily be replaced tomorrow by another symbol."

As for the extremists' slavophilia – "the plan to build up a Slavophile world is a dream. Nobody here is really thinking

Like others in the Moscow think-tanks, Mr Karaganov believes that the debate on foreign policy is just another weapon in the battle for power. And it is certainly true that the policy prescriptions of Mr Yeltsin's sworn enemies do not stand up to a moment's serious inspection. Those like

pal dangers for Mr Yeltsin's current foreign policy course. For in tying itself so closely to the west and its reforms so directly to prospective western financial assistance, the government may eventually face a backlash if aid on a scale suff Vice-president Alexander Rutskoi who advocate alliances cient to make a difference fails: with pariah states such as Iraq to materialise. Public opinion has been di and North Korea, for example,

haps, lies one of the two princi-

appointed on this count before with less than desirable pol cal consequences. As Mr Karasales in the process - a patently ridiculous notion ganov puts it: "People were romantic about this aid. They were promised so much, and so little was delivered. Then when they saw it was not coming they instantly became more nationalistic."

The other big danger is that such tendencies could be fuelled by conflicts in Russia's immediate neighbourhood, especially if Russia itself were somehow to become militarily embroiled.

That is not a far-fetched notion, as western governments are uneasily aware.

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with irresponsible states," con-

cludes Mr Karaganov, "are merely trying to provoke hos-

tile reprisals from the west. For it is only under those cir-

cumstances of isolation that

they stand a chance of coming

to power. But actually, even

most nationalists understand

that we need the outside world

for its technology, its products,

In that last sentence, per-

even its culture.

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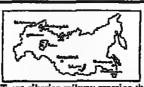
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Roadside stall: minced meat for sale at an open air market in we

AST MONTH, political leaders from one of Russia's volatile and ethni-

cally diverse southern border

regions met to discuss forming an eco-

nomic association. They swiftly got into an acrimonious row. The subject? The

varying sums different areas were charg-

says. "But in that you have a potential

The pattern repeats itself in different forms throughout what Russians call the

"near abroad," and to an extent in Russia

itself, as peoples long condemned to

uneasy cohabitation seek to redefine their

relations and in some cases to redraw the

On the southern periphery, in the Trans-

Caucasian and central Asian republics,

ethnic and religious wers have claimed

thousands of lives, uprooted thousands

more from their homes, and embroiled

Russian forces in controversial peace-mak-

ing or peace-keeping exercises. In the Bal-

tic states, tensions run ever higher over

the political rights of their substantial

Russian minorities, raising a lingering

question-mark over the complete with-

drawal of Russian forces.

Most difficult of all, Moscow is engaged

in a highly-charged and interrelated set of disputes over assets, trade, military forces

and territory with the second biggest for-

mer Soviet republic, Ukraine, as the latter

gropes for full independence from Russia.

and Soviet empires was always going to be

a nightmare. The 15 successor states are not merely grappling with the legacy of centuries of more or less repressive rule

Disentangling the affairs of the Russian

ethnic conflict waiting to erupt.

£a.'5

ay



A Russian family near Moscow busy planting potatoes at its dachs (country house) this month



Andrew Gowers on the 'near abroad': Russia and the Commonwealth of Independent States

RUSSIA 7

## Struggle to unbundle the monolith

ing for deposits on re-useable bottles, which had caused an increasingly disruptask of unbundling the most monolithic tive bottle arbitrage trade around the economic and political system in the history of the world. An economy in which Mr Sergei Shakhrai, a top adviser to central planning distorted all price rela-tionships, and frequently dictated that pro-duction of one item be mainly concen-trated in one place, finds its nervous President Boris Yeltsin, tells this anecdote to underline the potential for friction among the multifarious population groups of the former Soviet Union - "you start system collapsing. with a difference over bottle deposits," he

Inter-republican trade has all but broken down, for want of the means of payment: veral countries, including Ukraine, have left the rouble zone and set out to print their own monies, only to find them collapsing in value more rapidly even than the Russian currency.

Disputes over the military and other spoils are only slowly being resolved. The scope and structure of the Commonwealth of Independent States, supposed to provide a framework for a looser form of association between the former Soviet republics, remain in contention. The potential for conflict is immense: indeed, the surprise is perhaps the extent to which the leaders of Russia and the other republics have thus far managed to keep it under control.

For Russia, by far the largest of the successor states, these issues pose a number of difficulties that require especially sensitive handling.

The conflicts to its south are a constant worry, threatening either to spill over into Russia proper or otherwise to destabilise it through a growing exodus of refugees. The worst and longest-running of these is the war between Azerbaijan and Armenia over the Armenian enclave of Nagorno-Kara-bakh, in which Moscow has studiously sought to remain neutral but has made



ers line up against lines of police in Moscow earlier this year

are now directly involved: ■ In the central Asian republic of Tajiki-stan, scene of a violent struggle between Moslem and ex-communist forces last year, they are deployed to police the border with Afghanistan, source of support for the Islamic fundamentalists.

■ in northern Moldova, the Russian 14th army is now keeping a fragile peace between regular Moldovan forces and the ethnic Russian minority of Trans-Duestr, after intervening on the latter's side in fighting last year.

■ In the fractions and disintegrating republic of Georgia, Russian forces are try-ing to hold the line in one civil conflict that between the government of Mr Eduard Shevardnadze and south Ossetian separatists demanding unification with their kin the other side of the Russian sporadic attempts to mediate.

In several cases, however, Russian troops stationed outside Russia's borders

border - and are frequently accused (so far without evidence) of involvement in another, between Georgia and separatist

rebels in Abkhazia. In all these cases there is a potentially dangerous ambiguity about Russia's role. Moscow insists that the aim is purely to keep the peace and mediate, but many in the republics concerned suspect that more partisan

Moreover, an effort by President Yeltsin to clarify the position earlier this year arguably made matters worse. In a speech to the centrist Civic Union grouping at the end of February, he said that, given its 'heartfelt interest" in suppressing conflicts around its borders, Russia should be granted "special powers" by the United Nations to guarantee peace and stability in the former Soviet Union. No amount of subsequent explanation by the foreign ministry that he was simply talking about the need for UN political or financial support for specific, mutually agreed peace-keeping operations could quite dispel the impression that he was asking the world beyond its borders.

This is a question of acute sensitivity,

not least because of the large number of ethnic Russians - 25m - who live outside Russia. Such minorities in other republics - in Kazakhstan, they constitute nearly half the population - could easily become the object of nationalist passions and a course célèbre in Russia itself. Some even murmur of the risk of Yugoslav-style "eth-

Mr Yeltsin's answer to this danger has been to attempt to hasten integration efforts within the CIS. An emerging "hard core" of Commonwealth members - Russia, Belarus, Kazakhstan and the central Asian republics - have signed a defence treaty with this end in mind.

But that does not ease the worries of those new republics that have chosen to stay outside the CIS framework. Take the Baltic states. In Latvia and Estonia in particular, efforts by legislators to deprive Russian residents of some of their political or civil rights have drawn a series of increasingly blunt warnings from Moscow, with Pre t Yeltsin vowing to halt the withdrawal of Russian troops from the Baltic region. Although foreign ministry officials insist troop withdrawals are proceeding to plan, it remains uncertain whether they will all be out by the previously announced deadline of mid-1993.

It is the continuing struggle between Russia and Ukraine – which belongs to the CIS but has no interest in signing the collective defence treaty - that provides the greatest cause for concern. Since the collapse of communism, the two states have been in contention over a range of issues, from the division of the USSR's

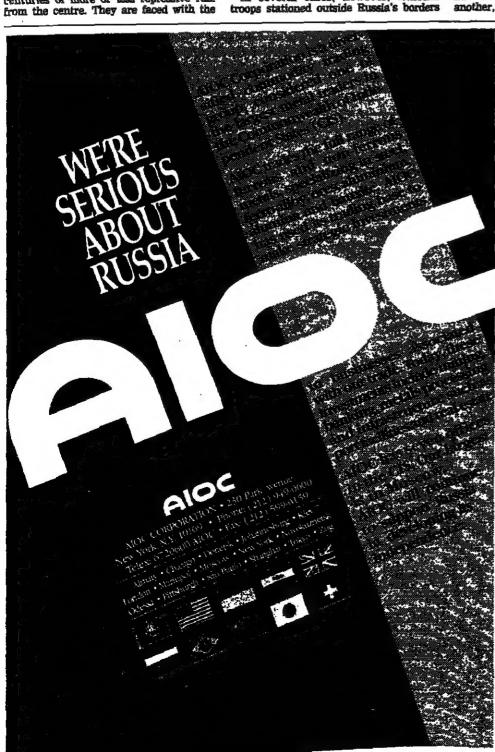
assets and external debt (though the latter question has now been resolved, removing one obstacle to a Russian debt resched uling deal) to energy supplies, with Russia demanding that Ukraine in future pay world prices for its oil and gas.

The two most serious, however, concern ownership of the Soviet Black Sea Fleet, stationed in the port of Sebastopol in the disputed Crimes region, and nuclear weapons. On both questions, the climate between Moscow and Kiev appears to be worsening. Ukraine accuses Russia of seeking to use the Black Sea Fleet issue to press its old claim to Crimes, and of refusing to recognise its borders in a comprehensive treaty. Russia growls in response. And in its insecurity, Ukraine seems increasingly tempted to hang on to at least some of the former Soviet nuclear missiles and nuclear-armed strategic bombers still on its territory.

Few believe that the two rivals are likely to come to blows over any of these issues, at least under their current leaders. But the long list of unresolved matters between them should worry western governments all the same. For one thing, with the Russian parliament refusing to ratify the Start 2 strategic arms limitation treaty with the US until its Ukrainian counterpart agrees to go non-nuclear, it could seriously disrupt the international armscontrol proces

In the longer term, there are deeper underlying strains which. political circumstances in either Russia or Ukraine, could flare up into something much worse. Given the long history of Russian rule and the fact that Russian nationhood was born in what is now Ukraine, has Moscow genuinely accepted Ukrainian independence? Will it be pre-pared to allow the CIS to develop into the loose association focused mainly on economic relations that Kiev seems to want? How Russia decides to handle its biggest

former Soviet bedfellow will have an important bearing on its relations with the others - and with the wider world.



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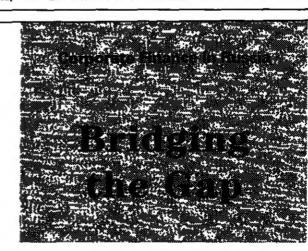
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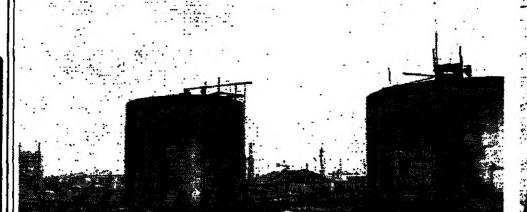
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**FINANCIAL TIMES** 



Drastic measures are needed to curb the wasteful use of energy by industry, reports Andrew Gowers

## A relentless slide in oil production

there is a single Russian industry where, in theory, reform has a chance of making a palpable difference. it has to be the energy sector. Nothing would do more to

help the economy through the storms of the next few years than an increase in production and exports of oil, still Russia's largest hard currency earner by far. Nothing, unfortunately, could seem more remote.

Oil production has been on a precipitous slide for more than three years, and continues to fall at an annual rate of more than 10 per cent, with output this year expected to drop below 350m tonnes, compared with a peak in the late-1980s of close to 600m tonnes.

Mr Yuri Shafranik, the newly appointed fuel and energy minister, reckons it will be 1995 before the trend begins to bottom out, but even that cannot be taken for granted. And in that year, unless

drastic measures are taken now to curb the wasteful use of energy by industry, Russia now still the world's largest producer - will find itself facing the need to import oil.

The litany goes on. Many of the country's best oil reservoirs have been damaged by inappropriate extraction methods, and the industry lacks the chronically short of money to

Russian domestic oil prices are a tiny fraction of the world level; taxes are onerous; and, in any case, few enterprises are paying in full for the oil they buy - one insider reckons that oil producers will this year have in effect given away oil to a value larger than that of the central bank credits that are chiefly held responsible for fuelling inflation.

F all that were not enough to leave the industry dead its feet, there is a chronic shortage of production equipment - 80 per cent of the equipment-manufacturing capacity of the former Soviet Union is located in now independent Azerbaijan.

Two things are desperately needed to begin turning things round. One is radical reform of the domestic energy pricing regime, identified by the World Bank as of key importance in

Russia's transition from the command economy, but sadly neglected since the Gaidar government's initial burst of reform in early 1992.

A rise in prices towards the world level would stimulate production, curtail wasteful consumption and eliminate the rampant corruption that currently afflicts the industry. Yegor Gaidar himself now reckons that failure to achieve complete liberalisation of energy prices last year was his biggest single mistake.

The other requirement, which would be encouraged by a serious move on prices, is significant investment in opening new fields and repairing old ones by the large western integrated oil companies

So far, there has barely been a trickle, perhaps \$500m, a minuscule amount when compared with the scale of the task, though the Group of Seven leading industrial countries is taking steps to foster

HE problem is not a lack of will on the part of the oil majors, most of which still regard the former Soviet Union as one of the great exploration opportunities left to them and several of which have already struck haps better organised, republics of the Commonwealth of Independent States – notably Azerbaijan and Kazakhstan

The problem is the chaos in Russia. Whenever western oil industry executives gather to talk about Russia, they chant a familiar chorus of complaints: first is the lack of any form of stable institutional and legal framework for investing in the Second, pervasive uncer-

tainty as to who is responsible for what in the central Moscow bureaucracy, in regional gov-ernment and in the sprawling oil "production associations" that run the industry in Siberia and elsewhere and that are currently being reorgan-ised into large joint stock companies in readiness for eventual partial privatisation.

Third, a punitive and constantly changing tax regime, reflecting the government's ever-growing appetite for funds to plug its budget deficit and, on occasion, local demands for infrastructure spending. Other gripes include the fact that foreign companies tend to be offered only a limited range of investment opportunities and not usually in the best fields - and the Russian government's tendency to impose difficult-to-meet local content requirements on procurement

"The lack of a clear framework is still the greatest single obstacle to western oil com-pany investment," Mr Mark Moody-Stuart, managing director of Shell for exploration, told a gathering of western and Russian oil bosses in February.
"For significant investment

to take place, there must be a clear general policy, applicable to all ventures, with manifest legislative support to ensure stability. We still seem to be some distance away from such conditions." he says. This is more than just

another industry whinge about "level playing fields." Everyone in the business concurs that the reason why there has been so little foreign investment thus far is that Russia presents a unique concatenation of risks, with very little prospect of adequate returns for a western oil company.

The tax system that has sprung up in the past year, for example – an impenetrable thicket of export tariffs, roybased on production volumes rather than revenues - almost guarantees that the most promising project will stand little chance of turning a profit.

Apart from a desire for revenue, this reflects deep-seated political opposition to the involvement of foreign capital in exploiting Russia's natural resources - a fact which acts as a residual deterrent to the western oil companies.

"The international oil companies are used to living with political instability, but they have to be assured of some return," says Mr George Reese. an oil expert with Ernst and Young in Moscow."In the North Sea, the tax regime may be onerous, but at least it's profit-based. Here, the risks are political, technical and finan-

That has certainly been the experience of one of the small and brave band of western companies that have taken the plunge: Phibro of the US, with its "White Nights" joint venture in western Siberia.

In operation for two years, the enterprise has yet to come within sight of a return, thanks in part to payment problems with some of its Russian partners and to the government's tardiness in fulfilling a promise to give it a special exemption from export

**RUSSIA 8** 

Clearly Mr Shafranik, the new energy minister who built up a strong reputation as a defender of oil producer interests in his previous job as governor of Siberia's oil-rich Tyumen region, faces a daunting set of challenges. He says he is anxious to attract investment both in upstream and downstream oil projects, and in the

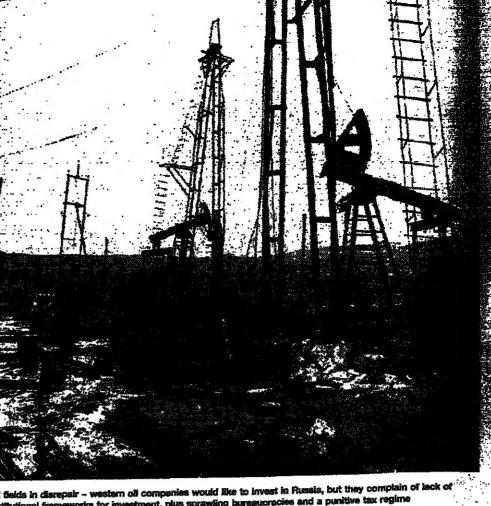
equipment industry. More promisingly from the perspective of western oil companies, he also says he wants to do something about the tax regime - "certainly I'm not satisfied with our tax policy. I try to solve it on my level, and I'm sure it will be solved to the benefit of the oil producers."

Mr Shafranik's forceful presence in government is among the more hopeful signs foreign oil industry observers can discern amid the gloom. Another is that the authorities appear to have begun listening more closely to the western compa-Fyodorov, the finance minister, recently receiving a joint submission from 20 oil majors grouped in the newly-founded Petroleum Advisory Forum.

LTIMATELY, however, the proof of the government's better intentions will come only through better experience. For this, the industry is closely watching the progress of a consortium of western companies McDermott and Marathon of the US, Japan's Mitsui and Mit-

subishi, and the Anglo-Dutch group Shell - bidding to exploit some of the large gas reserves off Sakhalin island in the Russian far east. Having won the tender for a feasibility study last year, after

much confusion between federal and local authorities, they are now waiting to learn whether they can proceed to the development stage. If this \$10bn project goes even moderately smoothly, oil executives say it will serve as a bellwether for the industry as a



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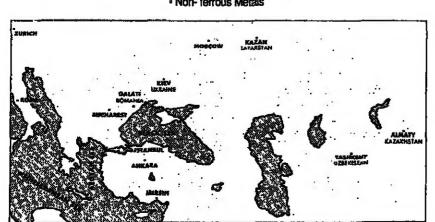
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gest banks offer only hort-term finance instead of

investment credit needed to overhaul the economy - except

when they are acting as trans-mission belts for cheap central

bank credits to industry and

mercial banks. "The problem is

not only checking commercial

While the country's distorted

price structure and tumbling

currency enable commercial

banks to make big profits on

foreign exchange and financing

raw materials exports, the

health of many banks - in par-

ticular those spawned by for-

mer state-owned banks or founded by state-owned enter-

prises - is tied to the ineffi-

cient enterprises they support

ally the Communist state's

cash-register, has so far failed

to organise either an efficient

payments system or banking

skilled staff to the private sec-

tor. Not only is the central

bank payments system known

to lose documents, it is open to

fraud and bribery as witnessed by a big swindle of central

bank funds last year through

■ FIE fragility of the banks

complicates the govern-

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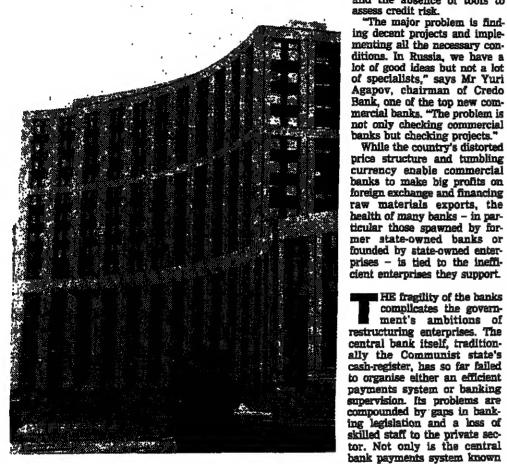
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#### **RUSSIA 9**



itial resources into computerising operations and training their staff abroad. Above: cust Russia has over 1,600 banks in all shapes and sizes, reports Leyla Boulton

## Banking on the future

And even if the authorities central bank of Russia is trymanaged to bring down inflaing to overhaul the national tion - exceeding 1,000 per cent payments system, while coma year - commercial lending in mercial bankers hope their Russia would remain compliown clearing systems will cated by a low rate of recovery somehow spontaneously proand the absence of tools to duce a unified western-style system. Meanwhile, the banks "The major problem is findare pressing ahead with the introduction of market-style ing decent projects and implementing all the necessary connovelties like credit cards. ditions. In Russia, we have a lot of good ideas but not a lot Some are also devoting considerable resources to computerisof specialists," says Mr Yuri ing their operations and train-Agapov, chairman of Credo ing their staff abroad. Bank, one of the top new com-

The activities of Incombank, another leading Russian commercial bank, are fairly typical of the more serious institutions which are trying, in the words of one banker, to "be a bank, not a bag of state money".

Only two to five per cent of its loans are "long-term" (which means less than five years in Russia) and they have typically financed real estate deals, construction and the purchase of processing equipment for exporters of Russia's natural wealth. Short-term credit has financed items such as imports of foreign cars for the nouveaux riches, and exports of raw materials.

Nobody can dictate to whom we should give money, said Mr Alexei Kuznetsov, the bank's 34-year-old acting chairman (the chairman was in the United States for training). "It is not possible to limit us because we doing everything for ourselves." He said the bank had not received "a kopeck" in central bank funds, the distribution of which is also believed to be facilitated by personal friendships with older-generation bosses of the central bank bosses. Incombank's plans to expand

forged transfer documents. While the state remains parabroad include the possibility of establishing a branch in alysed by inefficiency, commercial banks are increasingly tak-ing matters into their own Cyprus - to service clients who have set up offshore companies in order to avoid taxation and In response to the central arbitrary treatment by governbank system taking weeks to ment authorities. While acknowledging that some move money from one account to another, groups of commer-cial banks have set up their funds are illegally channelled into offshore havens, Mr Kuznetsov said the bank's first own clearing systems. With the help of foreign advisers, includduty was towards its customers - "we know that when our ing western central banks, the

clients put money in western trust companies, they get robbed. When the money is not totally legal, they get misera-ble interest rates," he said. "You can perfectly understand an enterprise for taking money out of country. It is worried about the fate of its workers,

technology, instability." Although it has been one of the few banks to get its accounts audited by western auditors, the notes to the accounts confirm the difficulties of assessing the health of the bank's loan portfolio as

market conditions. In contrast, Sberbank, the

country's nationwide savings bank, has struggled to break free from the stranglehold of the state, which has controlled it for seven decades. But with the best will in the world, it remains trapped by the difficult transition from a state-run economy to a market system, as witnessed by a public squabble with the central bank over just how much independence it should enjoy.



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borrowers struggle to adjust to diversify since it was transformed into a joint stock company with shareholders including the central bank, Sherbank continues to provide housing and home improvement loans

at derisory interest rates. It also provides state-subsidised loans for 22 "socially useful" programmes, like helping victims of the Chernobyl nuclear accident.

Finally, it acts as the state's agent when required, last year using its unparalleled network to distribute privatisation vouchers to Russia's 148m inhabitants.

Vicktor Gerashchanko, the central bank chairman, launched an attempt to take it over, undoing its status as a commercial bank in order - he wrote in a letter to parliament - to "protect" depositors from the possibility of a US-style Savings and Loans crisis: "Acting in accordance with market laws and the realities of contemporary life, [Sberbank] has in fact rejected its previous financial policy, designed to satisfy the small depositor, and is increasingly looking for

super profits." This was a striking accusation, given that the Soviet state has for decades, including under his stewardship as governor of the Soviet central

bank, systematically appropriated the bank's deposits to finance the budget deficit. Only recently, Mr Boris Fyodorov, the finance minister, managed to get Sberbank to raise interest rates paid to depositors after the state repaid money owed to it.

I is against this chaotic background that the small number of foreign banks with representative offices in Moscow are cautiously dipping a toe in the Russian market by setting up branches.

But they remain wary of fresh lending after Vneshecon-ombank, the Soviet bank responsible for servicing the former Soviet Union's foreign debt, defaulted on payments and froze billions of dollars belonging to foreign compa-

Under pressure from the Russian commercial banks, ply want to grab their prized hard currency deposits, the central bank recently produced rules limiting foreign banking activity in Russia.

But the rules are vague saying that foreign banks will not exceed an as yet unspecified percentage of total banking activity - that Mr Alexander Khandruyev, a deputy governor of the central bank, suggests they are intended as a deliberate fudge to reconcile conflicting interests.

The downside to the Russian banks' tumultuous growth is the central bank's inability to take on the challenge of supervising them to enhance public

confidence in the sector. Mr Georgy Matiukhin, the former chairman of the central bank, said in a recent interview that finding skilled people to do that job had been his greatest failing - even his supervision chief had left to head a commercial bank.

The central bank sharply raised minimum capital requirements this year to try to squeeze out smaller institutions that are not performing banking functions and in some cases have been set up to abuse central bank funds or run off with deposits.

The EC report says this would mean that 90 per cent of banking institutions would have to close down or merge with others, but no restructuring has been visible so far.

The central bank's ability to enforce its own rules, and fully switch from the role of state monopoly to market regulator. has yet to be proven.

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## **Delays on mining deals**

sia's huge wealth of precious metals, stones, and nonferrous metals.

For foreign companies, which have been told their investment is crucial to help Russia switch to a market economy, it has been a time of mouth-watering opportunity and frustration.

Despite an abundance of possibilities, virtually no western company can yet claim to have struck a deal because of the state's slow progress in establishing a clear framework for foreign investment in this rich sector. This is not to say there has been no progress. But the authorities are still coming to grips with new legislation that provides for the tendering of all new deposits and a westernstyle licensing system.

Meanwhile, fledgling Russian entrepreneurs have suc-cessfully lobbied for support against foreign competition in developing the country's natu-

One of these entrepreneurs is Mr Andrei Chuguevsky, who has deftly - some would say I cannot compete with [a com-

T HAS been a turbulent deviously - combined eco- pany such as] BHP," he says. year for trying to mine Rus- nomic nationalism with an acknowledged need for western capital and expertise.

In January, he won Russia's first international mining tender - to develop the giant Udokan copper deposit in eastern Siberia - in alliance with a Hong Kong businessman called Mr Eddie Wong, and using advice from Pluor Daniel, the San Francisco-based mining

"We need technical experience and management skills from the west. We cannot invent a business culture by ourselves in Russia," says Mr Chuguyevsky, a 34-year-old rouble billionaire, who has so far made his money from the get-rich-quick trading and export operations of most Russian entrepreneurs. He claims the only reason the tender was won by the Udokan Mining Company, in which he holds 35 per cent. was because he had studied the project for three years compared to the six months available to western giants like Australia's BHP and Britain's RTZ - "otherwise

Another trump-card in enlisting sympathy from the authorities was his alliance with a dozen industrial plants, which have traditionally depended on defence orders that have now dried up, as suppliers of machinery for the \$1bn (£600m) project. The government has been unable to provide much financial assistance to companies such as Uralmash, the engineering

giant being privatised, so was

naturally attracted to the idea

of helping them help them-

But since his project was approved by the tender committee, Mr Chuguyevsky has begun negotiating changes that would give him and Russian partners sole control by buying out Mr Wong's 45 per cent stake. Mr Chuguyevsky also wants to cancel a plan, devised by Mr Wong to help finance the deposit's development by selling much of the copper concentrate to China for smelting there. Under pressure from the Russian government, he now says that the

copper concentrate should be

smelted in Russia rather than be at the mercy of a Chinese Finally, it is far from clear

that he will appoint Fluor Daniel project manager as initially expected. He has approached BHP, as a potential candidate for that role. Dismissing Mr Wong's arrangements for Allen & Co, a private US investment bank, to raise some of the finance, Mr Chuguyevsky wants to involve other banks and multilateral organisations like the World Bank's International Finance Corporation which have been hard-pressed to find viable projects in Russia's difficult environment cli-

NOTHER problem in opening the door to Rus-sia's mining wealth has been innate Russian reluctance to let go of rich resources to foreigners and a tendency to move the goal posts in the name of reform.

A pioneer in trying to estab-lish a foreign foothold in Russia's previously closed gold industry has been a small Australian company called Star

A miner plays an accordion among pro-Yeltsin supporters gathered in Moscow's Red Square. on faderal and local a

Technology System. But Star has become caught in a time warp, allying itself with a local Siberian gold producer to develop the country's biggest hard rock gold deposit known as Sukhoi Log (Dry Gulch) before the new mining legislation appeared, and now having to adapt to its requirements. While it is supported by the State Property Committee, whose main role is privatising state-owned enterprises, the

project has run into opposition

from other parts of the admin-

istration. Not surprisingly, Sukhoi Log is being eyed hun-grily by the likes of Mr Chuguyevsky (pictured below), who may try to use the same sort of formula which brought him Udokan: a plea on behalf of Russian entrepreneurship and Russian industry, and later, maybe enlisting a big foreign company to help him.

what insulated from the fray, although Ashton Mining of

with shares and management split between federal authoriregion which mines 99 per cent The country's diamond mining industry has been some-

of Russian diamonds. Spawned by the old state monopoly combining diamonds and gold, state-controlled ARS is closed to outside investors, with shareholders including the fantastically fortunate staff

responsible for managing a five-year Soviet-era agreement expiring in 1995 to channel 95 per cent of rough diamond exports through De Beers' Central Selling Organisation. But despite its closed and

held by the Russian army's pension fund. ARS is also

monopolistic nature, ARS has been promoting market-orientated changes of its own. These involve dispensing with the State Committee for Precions Stones and Metals' wasteful system of distributing diamonds to Russia's diamondcutting factories. ARS is also considering over-

hauling the methods used to check the prices paid by De Beers for Russian diamonds under an agreement which has been contested by some economic nationalists as contrary to Russian interests. But rather than pushing for the right to sell more than five per cent independently - as advocated by the State Committee - ARS favours putting all diamond exports through the CSO and then monitoring those directly. With time, it would

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also like to get rid of the State Committee, an organisation with an unclear role to play in emerging market condition in the meantime, ARS has provided one sort of solution to the chronic conflict between federal and local authorities

over how to share Russia's mineral wealth. This involves quite simply, buying off both local authorities and workers with a huge piece of the cake. with 23 per cent, and 5 per cent



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HE GENERAL secretary of Russia's tiny but noisy economic Freedom Party. Ms Irina Hakamada, 38, wears tight mini-skirts and drives a Toyota. The Soviet-born daughter of a Japanese Communist, she is a standard-bearer of Russia's new class of entrepre-

Taking the title used by Soviet Communist party leaders who ruled the country for 70 years was originally intended as a joke. But the class she represents is extremely serious about asserting itself - even if many of its members are stashing away money and assets abroad just in case things do not work out

Having previously exercised influence on the political class indirectly, many new rich will be standing for election at parliamentary elections brought forward to the end of this year as a result of President Boris Yeltsin's referendum victory.

Having begun to accumulate alternative sources of influence such as newspapers and television time, all the new class needs is political legitimacy.

Some potential national leaders are already emerging. including Mr Yegor Gaidar, the former prime minister who launched the radical economic reforms which have allowed the new class to flourish. As a mark of the gratitude and respect which he commands, he was recently chosen to head the Association of Privatised and Private Business

Although it is not clear whether he will stand for pariament, one thing is clear. Money will matter in the forthcoming elections in a way that Communist party connections mattered in the last elections, held in 1990, when the Soviet Union was still a monolithic state run by Communists.

Ms Hakamada says she will be among the new candidates.



The creative energies of the new entrepreneurs need to be carefully

channelled

## The worst of both worlds

chairman, Mr Konstantin Borovol, the founder of one of Russia's biggest commodity exchanges, and Mr Syvatoslav Fyodorov, a millionaire eyesurgeon. She plans a westernstyle electoral campaign with a simple message: Russia's entrepreneurs need genuine eco-nomic freedom to benefit both

the individual and society. Mr Gaidar's liberalisation of most prices and trade last year both legalised and multiplied entrepreneurs who had previously operated in conditions of semi-illegality. But, for many of their compatriots, this has translated into a living nightmare of capitalism as portrayed by Communist party propaganda in the old days.

with flashy foreign cars, driven by the men in dark glasses whose profession is invariably "trade" or "banking." The streets are also full of new shops, restaurants and kiosks selling imported luxuries which most of the population cannot afford. The inequalities of capitalism are there for all to see, with its benefits for the

Indeed, the interruption of the liberalisation programme, under conservative pressure, has now given Russia the worst of both worlds. Price distortions, soaring inflation, and a tumbling Russian currency mean it is far more profitable to export Russia's natural wealth than to invest money inside the country. With GNP getting smaller, a growing share of a shrinking pie for a

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small group of people is potentially explosive.

Also enriching themselves are corrupt bureaucrais who retain control of large areas of economic decision-making, together with some managers of state-owned enterprises who are siphoning off profitable parts of businesses for themseives through so-called

'nomenklatura privatisation." Russia's new rich rest in former Communist party establishment sanatoria, and live in former Soviet leaders' country homes - at least until they have time to build their own, grander dachds. They flaunt their wealth now rather than hide it as before.

No wonder the results of last month's referendum surprised most of the country's political class, showing 52 per cent support for unpopular, divisive radical economic reforms. But the small margin of support also shows that while most Russian people prefer moving forward to moving backwards, a lot will have to be done to prove their instincts are right.

Russia already has a few wealthy entrepreneurs who are beginning to think long-term. One example is Mr Andrei Chuguyevsky, 34, who won a tender to exploit Russia's huge Udokan copper deposit (see report above), and says he wants to turn to the "real economy" as opposed to the export and trading deals which have made him a rouble billionaire.

But he believes it remains an open question as to whether Russia will advance along the path of a mafia state, uniting the interests of officials and shrewd businessmen feeding off a distorted economy, or towards an open market econ-

For the latter to take place, it is up to the government to devise policies reversing a situation where it is only logical for entrepreneurs to act as most do now.

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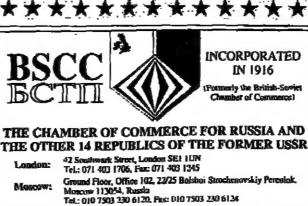
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